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EC UNITY
Competing blueprints on the drawing board
Page 22

World News

E Germans reject Kohl's all-German election date

The East German Government firmly rejected suggestions by Chancellor Helmut Kohl that all-German elections could be held as early as December.

Mr Lothar de Maizière, East Germany's Christian Democrat Prime Minister, said that no one had raised the subject with him. He had held talks on German unity with the Chancellor only the previous evening in West Berlin. Page 2

Yugoslav war 'close'
Borisav Jovic became Yugoslav President by annual rotation and said the deeply-divided country was close to civil war. Page 3

Likud plea
Israeli Prime Minister Yitzhak Shamir will ask President Chaim Herzog for more time to try to forge a right-wing government when his three-week mandate expires on Friday.

Contras accused
The UN said the disarming of up to 17,000 Nicaragua Contra rebels was moving at a pace well behind publicly-announced goals, while the Nicaraguan Defence Ministry said the Contras were continuing to violate a negotiated ceasefire.

Notice on US bases
The Philippines, on the second day of talks on the future of US bases in the country, formally notified the US it would terminate the current military bases agreement next year. But it left the door open to a new accord. Page 7

Greek accord
Greece said that it had found common ground with the US on the future of US military bases in the country and that agreement could soon be reached. The bases had been threatened with closure.

Prisoners' fate
Amnesty International called on the Chinese Government to reveal the fate of thousands of prisoners detained since the massacre in Peking last June.

Clampdown denied
Baghdad denied a Tehran newspaper report that it had clamped down on Iran's main opposition group, the Mujahideen Khalq, in Iraq.

S Korean demand
Japan is highly embarrassed by South Korean demands for a formal apology for colonising the Korean peninsula earlier this century and for Japan's treatment of Korean citizens. Page 18

King to share power
Nepal's King Birendra agreed to dissolve a group that threatened a move towards democracy and said he would share power with the interim government.

Moroccan challenge
Four opposition parties tabled the Moroccan parliament's first motion of censure, criticising the Government's policies.

One-party question
Mozambique's Government is to ask its people in July if they want to end the country's one-party system.

Mass expulsion
Nearly 11,000 students were expelled for cheating and violence during three days of college entry examinations in Bangladesh.

Links restored
The Vatican and Romania restored diplomatic relations, broken by Bucharest in 1950.

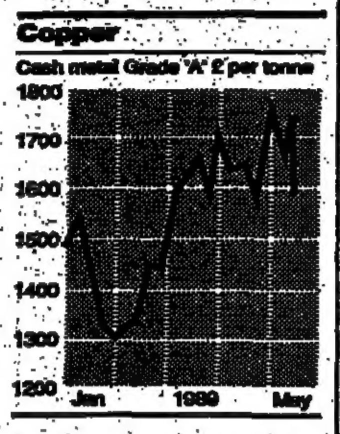
Gorbachev opponent
Soviet President Mikhail Gorbachev received only 61.1 per cent of the vote as a Moscow district delegate to the Communist Party's forthcoming congress – against 36 per cent for Valery Baranov, a factory official

Business Summary

Paris refuses demands to reclaim debt from Renault

France said it will refuse any demand by the European Commission to reclaim more than half of the $2.16bn state debt write-off accorded to Renault. The remarks by Mr Roger Fauroux, the Industry Minister, confirm that France and the Commission have driven themselves into deadlock as the end approaches in the wrangle over Renault's debts which has lasted more than two years. Page 24

MARKETS: Copper stocks increased by 5,550 tonnes, which was at the high end of some trade expectations and prompted some liquidation



of positions, Page 35. Frankfurt, share prices closed above their lows, the DAX index easing 9.98 points to 1851.25. Tokyo, the Nikkei rose to a high of 32,328.30 but closed with a loss at 31,997.04. Back Page, Section II

DAIMLER-Benz adjusted earnings per share last year fell to $ 31.12 from $35.27 in 1988. Page 25

NEWS Corporation announced a sharp fall in operating profits for the nine months to March, largely because of losses at Sky Television and the effect of a seven-month pilots' strike in Australia. Page 25

TRUSTHOUSE Forte, Britain's biggest hotel group, strengthened its grip on the UK hotel industry by buying the Crest Hotel chain. Page 25

BNP, Banque Nationale de Paris, leading French state-owned bank, is to take outright control of Banque Arabe et Internationale d'Investissement (BAII). Page 25

OLYMPIC Airways, Greek state flag carrier, has launched a $800m fleet renewal plan. Page 4

MEXICAN officials are hoping for a return of flight capital following President Carlos Salinas de Gortari's decision to privatise the commercial banks. Page 28

PEUGEOT Talbot, French car manufacturer, joined the latest round of UK price rises amid signs of a mounting backlash against the industry's pricing policies. Page 14

PHAROS, high-technology division of Nobel Industries of Sweden, will buy Spectra-Physics of the US from Ciba-Geigy of Switzerland. Page 26

SIR Yue-Kong Pao, one of the world's biggest shipowners, has become the first Hong Kong Chinese tycoon to move one of his companies' legal domicile out of the British colony. Page 24

CANADIAN Federal Government hopes to take the first step in privatising Petro-Canada this autumn. Page 29

US Commerce Department has sent a standards expert to Saudi Arabia in hopes of reversing a drop in US exports. Page 4

SPEEDO, US sportswear company, is staging a $85m leveraged buy-out from Warnaco, its parent company. Page 28

HYUNDAI Motor Corporation, South Korea's largest car manufacturer, has been hit by a general strike. Page 4

Target terrorists' bases, says US Lockerbie report

By Lionel Barber in Washington

THE US should consider military strikes against countries which harbour air terrorists, a presidential commission report on the Lockerbie bombing said yesterday.

The report urges the US to prepare "pre-emptive or retaliatory military strikes" against known terrorist enclaves – or at least covert operations – and calls on President George Bush to be more vigorous in pursuing and punishing state sponsors of terrorism.

The White House reacted cautiously, saying it needed time to consider the commission's recommendations, which include a new national system for notifying passengers of credible bomb threats, and a halt to installing expensive plastic explosive detectors in airports, saying more testing is needed.

A White House official said the US had reacted strongly in the past when there was a "smoking gun" linking countries to terrorist acts, as in the case of Libya in 1986, but he cautioned: "It's a little more difficult two years after the event."

President Bush set up the seven-member commission last August to investigate the bombing of Pan Am Flight 103 over Lockerbie, Scotland, killing 270 people on December 21, 1988. The decision followed complaints by relatives of the victims about suspected security breaches.

The commision is critical of the US Federal Aviation Administration, the body charged with responsibility for air safety, accusing it of being "reactive." It also singles out Pan Am airline for criticism,
Continued on Page 24
Background, Page 12


President George Bush accepts a report on the Lockerbie bombing from Ms Ann Dore Laughlin, chair of the President's Commission on Aviation, Security and Terrorism

Protesters in violent bid to storm Estonia, Latvia parliaments

By Quentin Peel in Moscow and Christopher Bobinski in Riga

DEMONSTRATORS protesting against the independence drive by the Soviet Baltic republics yesterday precipitated the worst violence seen in the present crisis.

Crowds in both Riga and Tallinn, the capitals of Latvia and Estonia, tried to storm parliament buildings.

A crowd estimated at 2,000 stormed a courtyard outside the Estonian parliament in Tallinn, overturning a minibus and throwing stones at the building, according to the first reports.

They were repulsed only after thousands of Estonian counter-demonstrators were summoned to the parliament by a radio broadcast and forced them to leave – without using violence, according to Mr Lennart Meri, the Estonian Foreign Minister.

In Riga, hundreds of Soviet Army officers and cadets tried for the second day to storm Latvia's parliament in disturbances described by witnesses as the worst since Latvia began its bid for independence.

Soldiers chanting anti-independence slogans pushed and scuffled with nationalist demonstrators as military cadets tried to snatch red and white Latvian flags from the hands of nationalist supporters.

The protesters were prevented from entering the parliament by a line of Latvian police, strengthened by an armed anti-riot unit. The demonstration broke up around noon amid heavy rain.

Soviet military demonstrators tried to force their way into the parliament on Monday in protests which ended only when Mr Ivar Godamis, the republic's Prime Minister, agreed to receive a petition from their leaders.

The anti-independence demonstrations came a day after President Mikhail Gorbachev, the Soviet leader, denounced the secession moves in both Estonia and Latvia and declared their parliamentary decisions to restore their pre-war independence constitutions as illegal.

Mr Gorbachev's pronouncements almost appeared to incite civil disobedience in Estonia, declaring that any subsequent acts of organs of state or state officials, based on their secession moves, were automatically illegal.

President Gorbachev's rejection of any compromise with either republic, despite their attempts to pursue more cautious paths to independence
Continued on Page 24
Disgruntled Red Army officers, Page 2

US may delay Soviet trade pact

By Peter Riddell, US Editor, in Washington

THE US may delay signing a US-Soviet trade agreement because of concern in Washington over Moscow's continued sanctions against Lithuania.

Broad understanding on a bilateral trade deal, sharply reducing tariffs on Soviet exports into the US markets, was reached in Paris three weeks ago. US officials said an agreement would be signed at the Washington summit between President George Bush and President Mikhail Gorbachev in two weeks' time.

However, there are now signs in Washington of a desire to slow the pace of negotiations, even though President Bush last month rejected formal sanctions against Moscow over Lithuania.

Mr Bush has taken no decision yet on whether to bring forward the deal for signing at the summit, but current indications are that he may not unless a dialogue begins between Vilnius and Moscow, and Soviet economic sanctions are eased.

Apart from his own views, Mr Bush also knows that any deal would almost certainly not be approved by Congress,
Continued on Page 24

Bundesbank denies plan to issue unity bonds

By David Marsh in Bonn

THE WEST GERMAN Bundesbank yesterday came out in strong opposition to direct foreign borrowing by the Bonn Government to help finance German unification.

The Finance Ministry also said it had no plans to issue unity bonds tailored to international investors such as the Japanese. However, the ministry said it was "examining" supplying financial help for East Germany through a special credit fund.

The statements followed a Financial Times report yesterday that Bonn was considering special D-Mark bond issues to help meet the costs of unity.

Such ideas are extremely controversial because of West Germany's large current account surplus and its present status as a significant capital exporter.

Mr Karl Otto Pohl, president of the Bundesbank, drew attention to this when he told reporters in Basle that "Germany is a surplus country."

He added: "We have a very efficient capital market and have no reason to consider arrangements like this (special foreign borrowing)."

Mr Pohl also pointed out that borrowing by Bonn had to be done in close contact with the Bundesbank. Deliberations in Bonn, still at a very early stage, about extra financing mechanisms to defray the cost of merging the two Germanys are likely to meet scepticism at the Bundesbank, which has some misgivings over the Kohl Government's ruling out of tax increases to fund unity.
Government bonds, Page 30

Thomson, Philips form joint venture to make HDTVs

By William Dawkins in Paris

THOMSON and Philips, the French and Dutch electronics groups, have agreed a joint FFr20bn ($3.6bn) investment programme to bring the first full high definition televisions (HDTVs) to European viewers by 1995.

The project, signed in secret by the two companies at the end of last week, is the most ambitious European attempt to win supremacy against Japanese competition in a new market estimated to be worth Ecu10bn ($12.4bn) worldwide by the middle of the decade.

It comes just a week before the International Radio Consultative Committee (CCIR) is due to meet in a fresh attempt to decide on a single world HDTV standard.

CCIR's last plenary session four years ago broke up in confusion when European communications authorities refused to accept a Japanese HDTV standard, known as Muse, on the grounds that ordinary televisions would be unable to receive it.

The Thomson-Philips deal includes, but goes far beyond, the two companies' existing work in the pan-European Eureka research programme, devoted to producing a European HDTV standard, based on the MAC family, which can be received on new and old sets.

"HDTV is our industrial future; this accord between two groups, which have been competitors for decades, symbolises what we want to do in Europe to catch up with Japan," said Mr Roger Fauroux, the French Minister for Industry, who announced the deal at a conference in Paris.

The Dutch and French partners confirmed but refused official comment on the announcement. Thomson, the world's largest television producer, would contribute FFr9bn to the scheme, with the help of a French government subsidy to be fixed in the next few weeks, while Philips would provide FFr11bn. This includes both sides' future Eureka contributions, estimated at just under FFr2bn.

The deal will cover co-operation in every step of HDTV development, including components, integrated circuits, flat screens, studio equipment and the sets themselves, said officials. Both partners already plan to market an enhanced television, a half-way step to HDTV, by the end of the year. This will have a wide screen and offer compact disk quality sound, for an estimated FFr30,000 per set.

The full HDTV will have all this, plus a higher picture scanning frequency, giving even better quality.

Finland's Nokia and Bosch of West Germany are the other two main partners in the Eureka HDTV project, which has swallowed up the equivalent of FFr2.5bn in its first four-year phase just ended, and is expected to take another FFr3.5bn in its second two-year phase, due to be agreed next month. Philips and French state-owned Thomson also launched an accord with National Broadcasting Corporation of the US in January, to work jointly on HDTV standards for the US market.

Chicago exchange expected to develop reinsurance futures

By Deborah Hargreaves in London

THE Chicago Board of Trade is set to give the go-ahead for the development of futures contracts based on reinsurance in a move that could break open the cosy structures of the US insurance market.

The exchange is understood to be considering two contracts based on car collision and health care reinsurance. Its board was expected to approve development of the products in a vote late yesterday.

The contracts would mark the culmination of an almost 20-year long struggle to find a way of trading reinsurance futures. Most big exchanges in the US and Europe have been looking at similar products but have found no way of fitting reinsurance into the standard specifications required by a futures contract.

The CBOT is coy about details of its planned contracts, but they are expected to be based on a basket of insurance policies all maturing at a certain date. They will be targeted at insurance companies which regularly buy reinsurance, which is at present negotiated as a private arrangement between insurance company and reinsurer.

The exchange is hoping the move will turn it into the US version of Lloyds of London. But the insurance industry is more sceptical.

Mr Christian Milton, head of reinsurance buying at AIG in New York said, "they are trying to treat reinsurance as a commodity and I'm not sure you can do that because in many instances it is dealing with uncertainty."

Indeed, the CBOT would have to overcome some state restrictions on insurance companies' involvement in futures and options. In addition, some states in the US have a big say over the cost of insurance policies which restricts the prices of reinsurance.

Mr Richard Sandor, president of international capital markets at Banque Indosuez in New York, who has been instrumental in drawing up the contracts, believes reinsurance futures have the potential to dwarf the highly successful Treasury bond futures traded at the CBOT.

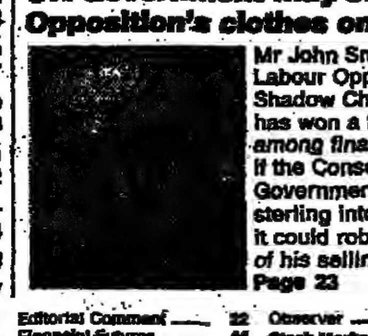
The products will create a more fluid and liquid market which will lower insurance costs, he believes. The cost of insurance – particularly private health care policies – has been mounting in the US in recent years.

The insurance industry is not renowned for its invention, the contracts' creators say, and there will be a long process of education to encourage insurers to use the contracts. But insurance companies have become quite active in financial futures in recent years which has made them more aware of the wider opportunities for risk management.

Chicago's futures exchanges are well known for the introduction of innovative financial products. Since the inception of financial futures in 1973, the exchanges have launched highly successful contracts such as futures on Eurodollar deposits. They have also made less successful attempts at diversification with the launch of futures on mortgage-backed securities last year.

CONTENTS

UK Government may steal the Opposition's clothes on EMS


Mr John Smith, UK Labour Opposition Shadow Chancellor, has won a following among financiers, but if the Conservative Government takes sterling into the EMS, it could rob him of one of his selling points
Page 23

MARKETS

STERLING
New York lunchtime: $1.6725
London: $1.6775 (1.6815)
DM2.7625 (2.7650)
FFr9.3225 (9.3200)
SFr2.3450 (2.3475)
Y254.0 (256.75)
£ Index 87.5 (87.5)

GOLD
New York: Comex Jun $371.1
London: $367.75 (368.00)

N SEA OIL (Argus)
Brent 15-day Jul $17.925 (17.975)

Chief price changes yesterday: Page 25

DOLLAR
New York lunchtime:
DM1.6465
FFr5.5525
SFr1.3988
Y151.30
London:
DM1.6465 (1.6445)
FFr5.5575 (5.5425)
SFr1.398 (1.3955)
Y151.40 (152.75)
$ Index 67.0 (same)
Tokyo close: Y151.30

US lunchtime rates
Fed Funds $8\frac{5}{16}$%
3-mo Treasury Bills: yield: 7.90%
Long Bond: $101\frac{7}{16}$
yield: 8.61%

STOCK INDICES
FT-SE 100: 2,212.2 (−2.3)
FT Ordinary: 1,731.6 (−1.9)
FT-A All-Share: 1,089.69 (−0.1%)
New York lunchtime:
DJ Ind. Av. 2,825.23 (+3.70)
S&P Comp 355.02 (+0.27)
Tokyo: Nikkei 31,997.04 (−45.61)

LONDON MONEY
3-month Interbank: closing $15\frac{1}{8}$% ($15\frac{5}{32}$)
Liffe long gilt future: Jun $81\frac{1}{8}$ ($81\frac{3}{32}$)

Disgruntled Red Army officers 'ready to fight attempts at secession'

COL Vladimir Krivolapov, a flight safety engineer teaching at a military academy in Riga, is a mild-mannered man who has spent 29 years in the army serving in nine garrisons throughout the Soviet Union and eastern Europe.

He also believes that the Red Army must play a more open political role if the unity of the Soviet Union is to be preserved – a view he says is typical of the general mood in the military.

By Christopher Bobinski in Riga, Latvia

Both yesterday and on Monday, he and several hundred fellow officers, as well as dozens of less gentle cadets in civilian clothes, pushed their way past Latvian nationalists and tried to enter the parliament building in Riga to demand that deputies rescind their re-assertion of independence.

He says no force other than the army can keep the Soviet Union together, an evident denigration of the Communist party. But he is careful to add: "We would be happy if we could avoid using this tool, if other means could be found."

The colonel does, however, say that if there were a majority vote for the restoration of independence in a Latvian referendum then the army would respect the result. "We would respect the will of the people."

Speaking from his three-room army flat on an ordinary high-rise housing estate where he lives with his wife, daughter and mother, he says that the army is the political arm of the state and he bemoans his perception that "some people are attempting to depoliticise it."

People in the army, he said, have felt insecure for at least a year now, coming under attack from liberal newspapers and in towns like Riga being criticised by local people. "We are becoming more active as the hostility towards the army grows," he says.

This is the background he outlines to a situation in which "military men have to demonstrate for the unity of the USSR."

Unless developments such as those in the Baltic states are reversed he feels "there will be no Soviet Union – a state for which a lot of blood has been shed in the last war."

The colonel avoids discussing the implications for the Soviet Union of a situation in which the army takes the political initiative. "I understand it is not the role of the army to do this but we have to defend ourselves," he says.

East Berlin rejects early all-German elections

By Leslie Colitt in East Berlin and Katharine Campbell in Frankfurt

THE East German Government yesterday firmly rejected suggestions by Chancellor Helmut Kohl that all-German elections could be held as early as December.

Mr Lothar de Maizière, East Germany's Christian Democrat Prime Minister, said yesterday that no one had raised the subject with him. He had held talks on German unity with the Chancellor only the previous evening in West Berlin.

Mr Kohl floated the idea on Monday after the resounding defeat of his Christian Democratic Union in last weekend's elections in two key states and the consequent loss of the CDU majority in the Bundesrat, the upper house of parliament.

The Bonn coalition agreed yesterday that pan-German elections should be held as soon as possible, conceivably on December 2, the date already set for the Federal Republic to go to the polls and recently mooted by the East Germans for their first state elections.

Mr Theo Waigel, the West German Finance Minister, said that all-German elections before the end of 1990 looked "more probable" than eight weeks ago.

In Bonn, Mr Douglas Hurd, Britain's Foreign Secretary, also backed the idea of early all-German elections provided the external aspects of a united Germany were solved first.

However, echoing Mr de Maizière, Mr Markus Meckel, East Germany's Social Democratic (SPD) Foreign Minister, said he "categorically" rejected all-German elections at such an early date.

Negotiations first had to take place with Bonn on East Germany's accession to the Federal Republic under Article 23 of the West German constitution. Only then could a date be set for elections.

Chancellor Kohl is said to favour moving the elections forward because of possible foreign objections to early unification. The proposal was, however, widely seen to be an attempt to forestall a possible CDU defeat in the West German elections on December 2. All-German elections were seen as being more favourable to Mr Kohl since the conservatives and their liberal allies gained a considerable majority in the East German elections last March.

Political analysts in East Berlin, however, noted that early elections might well backfire. Growing worries among East Germans about mass unemployment and rising prices could shift enough votes to the SPD to defeat the Christian Democrats in East Germany.

EC monetary plans attacked

By David Buchan in Strasbourg

POLITICIANS from Europe's ideological left and its geographical rim yesterday joined to criticise current plans for monetary union as insufficiently responsive to social needs.

Speaking for the Socialist group, the largest voting bloc in the European Parliament, Mr Alman Metten, for the Netherlands, said that if monetary policy were left totally to the "Euro-Fed" central bank, it would be "democratically and politically flawed".

Mr Patrick Cox, speaking in the monetary union debate as much for his own country, Ireland, as his own Liberal grouping, demanded "not a federal budget, but certain federal mechanisms" as exist in West Germany, to transfer money from richer to poorer regions, offsetting what would, he said, be the natural tendency for wealth in the post-1992 single market to flow to the centre.

Seeking to limit the impact of these attacks on monetary union plans, at least before EC governments sit down to serious talks late this year, European Commissioners defended the intended independence of the planned "Euro-Fed".

Mr Jacques Delors, Commission president, said that without independence for the new central bank, monetary union would never win approval from institutions such as the Bundesbank.

Another Commissioner, Mr Henning Christophersen, said no choice existed between price stability and autonomy of monetary policy on the one hand, and economic growth on the other. The former was vital to achieve the latter.

Europe on the drawing board, Page 26

Washington has become increasingly worried about Soviet intentions

Baker tries to spur summit momentum

By Peter Riddell in Washington and Quentin Peel in Moscow

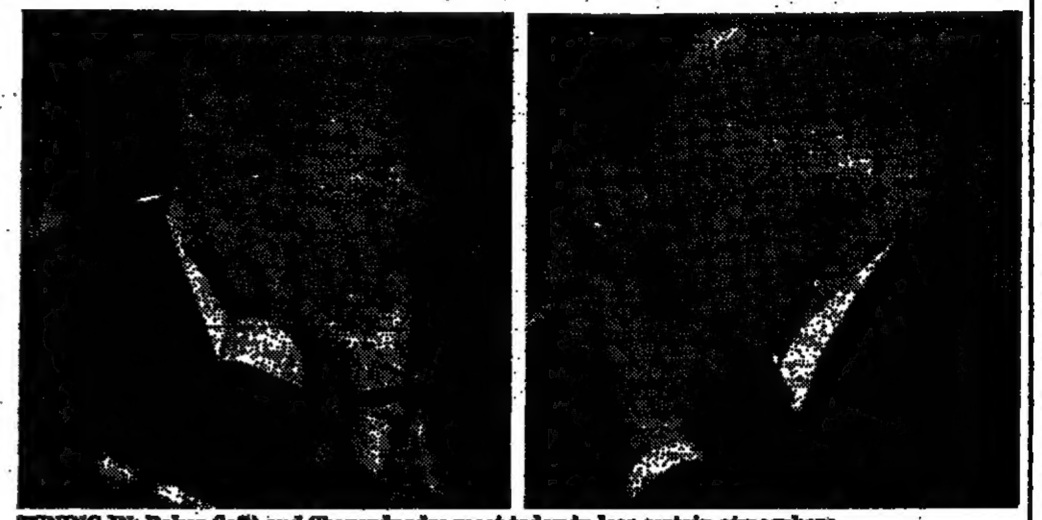
MR JAMES BAKER, the US Secretary of State, today starts three days of talks in Moscow with Mr Eduard Shevardnadze, the Soviet Foreign Minister, to prepare the US-Soviet summit at the end of the month, in a markedly more uncertain and questioning mood than on his last visit three months ago.

Since then the Bush administration has become increasingly concerned about the intentions, approach and freedom of manoeuvre of President Mikhail Gorbachev, about divisions within the Soviet leadership and about the influence of the military. Instead of the "Gorbymania" prevalent at the time of Mr Gorbachev's first visit to the US in December 1987, there is now a mood of scepticism.

Washington is particularly concerned about the Soviet leadership's imposition of sanctions on Lithuania, but US officials are also worried about what they see as a general retreat on the Soviet side on a wide range of arms control and related issues.

The increasingly tough Soviet position on arms control is affecting progress both in the Strategic Arms Reduction Talks (Start) between the US and the Soviet Union and the conventional forces in Europe (CFE) negotiations in Vienna. Marshal Dmitri Yazov, Soviet Defence Minister, admitted publicly on Monday that the military is behind the new hard line, particularly in the CFE negotiations, because it was concerned about consequences of German unification and break-up of the Warsaw Pact.

However, Mr Tom King, Britain's Defence Secretary, said during a visit to Moscow yesterday that new Soviet proposals to break the deadlock in the conventional arms talks today.



TUNING IN: Baker (left) and Shevardnadze meet today in less certain atmosphere

In Start, the Soviet side has renewed its insistence that sea-launched missiles should be covered by the planned treaty, and there are also disagreements on the range of air-launched missiles to be included. However, Marshal Sergei Akhromeyev, President Mikhail Gorbachev's military adviser, said yesterday that there was still a good chance that agreement on this issue could be reached at the superpower summit.

"There remain far fewer problems," Marshal Akhromeyev said. "True, they are difficult ones touching upon the key interests of both sides, but they are few," he told western reporters in Moscow.

Another problem likely to cast a shadow over and perhaps fatally undermine the talks is Lithuania, where Mr Baker will be looking for conciliatory moves by Moscow, such as the start of a dialogue with the Vilnius leadership. While Mr Bush's low key approach to the Lithuanian crisis has general public and political support in the US, Congressional leaders have already signalled opposition to actions, such as an early bilateral trade agreement, which might be seen as supporting the Soviet leadership.

US officials are busily playing down expectations of the summit, in contrast with declarations of the end of the Cold War when Mr Bush and Mr Gorbachev met in Malta in early December.

On arms control, both sides made substantial progress both on chemical and strategic weapons when Mr Baker visited Moscow in early February. But when Mr Shevardnadze came to Washington in early April the Soviets appeared to back away from some of the earlier understandings.

The US has made new proposals on the destruction of chemicals weapons and Mr Baker is taking several ideas to Moscow on strategic weapons, on the definitions and limits of various categories of missiles. Officials believe there are no insuperable obstacle given a willingness to negotiate.

There are also continuing differences over the future security position of a united Germany and whether it should be in Nato as the western allies insist and the Soviet Union has so far opposed. Both the Soviet political and military establishment appear to be united in resisting full Nato membership of a unified Germany, although dissident voices can be heard.

In particular, Professor Vyacheslav Dashichev, a leading academic specialist on German affairs, repeated in a newspaper article yesterday that it was "unrealistic to demand now that a united Germany remain outside Nato."

Food prices to soar as Prague cuts subsidies

By John Gapper in Prague

FOOD prices in Czechoslovakia are likely to rise by an average 30 per cent on July 1 because of a 28bn korunas (£1.04bn) cut in subsidies, government officials said yesterday.

Ministers agreed the cut on Monday as part of moves to create a market economy, according to Labour Ministry officials. The money is to be switched to wage and income support measures to cushion the effects of price rises.

The Government of national reconciliation has postponed other economic reforms until after the June 8-9 general election, but immediate cuts in the 40bn korunas food subsidies were thought a priority.

The Government would like to join the International Monetary Fund as part of its attempt to rebuild the economy. It wants to show evidence of reform of the pricing structure before the IMF's meeting in September.

Ministers held back from eliminating food subsidies because of fears about the reaction to even sharper price rises. The remaining subsidies will be used to support foods such as meat, milk and bread.

The Labour and Social Affairs Ministry was yesterday working out details of the income support, which is likely to last at least a year. Monthly payments of 170-180 korunas per head are likely to be added to all wages.

The average monthly wage in Czechoslovakia is about 3,400 korunas (£126) and the cut in food subsidies will be the first economic reform affecting all people. A doubling of rail fares from September has already been announced.

Price rises are likely to be an issue in the general election campaign. The Communist Party has used the expectation of price rises in election material criticising the Government's promises of economic reform.

Price support for services and industrial goods will remain in force until after the election, although ministers want to eliminate all such mechanisms in the long term. The Government also wants to end wage regulation by 1992.

EUROPEAN NEWS

Albanians lift a corner of their iron curtain

By Laura Silber in Tirana

PUBLIC DISPLAYS of affection used to be forbidden in Albania. Today, though, young couples stroll down Tirana's main boulevard hand in hand.

Young people also look more modern, wearing the blue jeans which were previously frowned upon for their capitalist stigma in this Stalinist heartland.

For all these new appearances, President Ramiz Alia has not quite introduced glasnost. Nevertheless, he is set to depart from the rigid Communism of his predecessor Mr Enver Hoxha who isolated Europe's poorest country during his 40-year rule.

Mr Alia, though, is performing a balancing act to appease the country's divided leadership. The old guard, including Mr Hoxha's widow, Nexmija, and Mr Simon Stefani, the Interior Minister, oppose reforms – and they enjoy the support of the Sigurimi, Albania's dreaded secret police.

The President's policies, however, are slowly deviating from the strict line of Albania's founder (who hand-picked him as successor before he died in 1985) in response to both external and domestic pressures.

Parliament last week approved reforms of the harsh legal and penal code after receiving Mr Alia's approval in a speech at the 10th plenum of the Communist Party a month ago. It was also decided that foreign credits and investments, acceptance of which were formerly considered seditious, were no longer illegal.

All Albanians have been granted the right to travel abroad, and a ban on religious "propaganda" in the otherwise atheist state has been lifted.

Foreign visitors to the Enver Hoxha Museum are now required to pay $1.50 for admission, something which no doubt would shake the man who scorned the US and the "imperialist dollar."

Under Mr Reis Malile, the Foreign Minister, foreign policy has also changed markedly in the past month, drawing Albania out of Hoxha's isolationism.

A first step has been aimed at increasing Albania's involvement in the United Nations, a move which culminated with the three-day visit last weekend by Mr Javier Perez de Cuellar, the UN Secretary General.

Talks with the superpowers have begun after Albania cautiously indicated interest last month in re-establishing relations with the US and the Soviet Union. Mr Alia has also made an approach to the 35-nation Conference on Security and Co-operation in Europe.

This revolutionary move from a period of virtual autarchy, brings the country closer to Europe – and so, closer to the possibility of luring foreign investors.

Social and economic discontent has certainly hastened the reform process. Widespread reports of demonstrations in several cities against the cult of Mr Hoxha and in support of Mr Alia persist, despite denials.

However, despite their poverty, Albanians seem genuinely to revere their 64-year-old President, a sentiment aided by the Government's assiduous cultivation of patriotism.

From kindergarten age Albanians are indoctrinated in the country's unique blend of socialism and national pride. Four-year-olds learn to sing the praises of the President and the party.

But despite his institutionalised support, Mr Alia, like most of the 3m population, followed last year's events in eastern Europe with great interest. The genesis of today's reforms could well lie in the Government's awareness that Albanians watched last year's domino-fall of other Communist regimes on Yugoslav, Italian and Greek television.

Mr Alia would indeed not have been called a reformer a year ago, although a gradual social revolution had begun soon after Mr Hoxha's death in 1985.

But as one Western diplomat stationed in Tirana puts it today: "Mr Alia is not a cataclysmic reformer like Mr Gorbachev, but it's certainly a different world now."

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Brussels blocks Lufthansa fare tactic

By Tim Dickson in Brussels

THE EUROPEAN Commission yesterday demonstrated its determination to act against big airlines which try to stifle competition before the more liberal air transport market planned for 1993 comes into effect.

In a move which has implications for all large carriers, the Commission has forced Lufthansa to abandon controversial tactics aimed at discouraging cheaper fares on the London-Munich route offered by UK-based Air Europe.

Brussels also said it was investigating a similar complaint by British Midland against Aer Lingus, and that letters would shortly be sent to all airline operators spelling out the principles at stake.

The intervention by Brussels in the two cases follows an announcement earlier this month that the EC is seeking further powers to stop established airlines squeezing out smaller carriers by predatory pricing and other practices such as unfair inducements to travel agents.

Both developments reflect anxieties that the benefits to the consumer of deregulation in the air transport sector may be significantly reduced without the vigorous application of competition policy.

Central to the Lufthansa case is the issue of "interlining" – the practice based on an agreement by members of the International Air Transport Association which allows passengers to use one airline's ticket on a different airline under set conditions.

Both Air Europe and Lufthansa are party to the system. But the Commission says the West German carrier withdrew Air Europe's authority to issue its tickets on part of the journey when the UK airline started to apply lower fares on the London-Munich route.

The Commission said yesterday that "where an airline has a large share of a particular market between two airports, a refusal to interline may hinder the maintenance or development of competition on that route or on connecting routes, and thus constitute an abuse of that dominant position."

Brussels says it is reasonable that interline sales be made at the tariff level of the dominant carrier and that travellers should have to pay any supplement necessary. The central principle to be applied, though, is that "sufficient interlining should exist to allow the newcomer to compete on equal terms."

US warns of trillion dollar greenhouse cost

By David Thomas in Bergen

THE GLOBAL cost of stabilising emissions of carbon dioxide, the gas which contributes largely to the greenhouse effect, could run into trillions of dollars, US delegates to a large environmental conference said yesterday.

Ministers from more than 30 countries are attending the Bergen meeting, which is considering follow-up actions to the 1987 report of the UN World Commission on Environment and Development.

Some European countries yesterday renewed the attacks on the US which marked the opening of the conference on Monday. Mr Brice Lalonde, the French Environment Minister, criticised Washington for not taking a lead in international meetings called this year to tackle global warming.

The US was fighting yesterday to water down a draft ministerial communiqué which would commit the countries at Bergen to "providing new and additional financial resources to developing countries, *inter alia* through appropriate mechanisms such as a climate fund, a planet fund and/or the global environmental facility being developed by the World Bank."

Mr John Easton, US Assistant Energy Secretary, criticised the commitment as too open-ended. The Administration had received about 15 projections of the costs of stabilising global warming emissions. "They are sobering in the sense that they are telling us that there are tremendous economic consequences here," he said.

The US delegation claims to have carried out more detailed costings of tackling the greenhouse effect than most other countries.

Mr David Trippier, UK Environment Minister, later confirmed that the British Government had no detailed costings of combating the greenhouse effect, but denied that the US was being asked to sign open-ended commitments.

However, there are signs that a compromise communiqué will be agreed today, delaying the main decisions on CFCs and global warming until later this year.

Romanian workers look to the Front for their salvation

UNLIKE Hungarian workers, who had no idea which political party in the elections would represent their interests, Romanian workers have no doubts. The ruling National *Salvation Front is for them.*

Despite appalling working conditions in the huge "August 23" factory engineering works in Bucharest where, under the Ceausescu regime, workers wages were tied to fulfilling the plan, the management, the trade unions and the 20,000 strong workforce are solidly behind the Front.

And they will vote for its presidential candidate and leader, Mr Ion Iliescu.

The crucial industrial sector, which make up 43 per cent of the 11m labour force, is, along with the peasantry, the Front's stronghold largely because the Front has delivered the goods.

"They gave us food and made life easier for us after the Revolution," said Mrs Maria Polixenia, who works in the large shed which makes brakes and fitting for trains.

Like her colleagues, none of them seem to fear the spectre of the market economy or even privatisation. "Look, the Front will give us work, improve the economy and our conditions," explained Mr Tudor Stoica, a steel turner.

They belong to Drepetea (Justice), an independent trade union and just one of the five

EASTERN EUROPE ELECTS

Romania

unions set up in the factory since the Revolution. It is led by Mr Pavel Cirlig, a 42-year-old accountant.

"I'll tell you why the Front is strong here. The other political parties, the Peasants and the Liberals, want to introduce privatisation tomorrow without thinking of the social costs. But the Front, they have a plan. They will phase in the market economy," explains Mr Cirlig, who will vote for Mr Iliescu as President but for the Ecologist Party in next Sunday's parliamentary elections.

The idea of the market economy does not seem to upset Mr Ion Petre, the technical production manager, either. Under the *ancien regime* he was manager of "August 23" for a short time, but was temporarily replaced last year when he was ordered by Mr Ceausescu to increase export quotas by 35 per cent.

"He told us that if we didn't *fulfill this crazy* plan, the workers would not receive their full wages. So I quit." Since then, along with Mr Cirlig, he has met Mr Petre Roman, the Prime Minister, whom they describe as "a most accessible man."

The Front-dominated Government told them they could have direct contacts with foreign companies.

"We've already had talks with Mercedes Benz. We need joint ventures for investments, to modernise, to become competitive. The last time we made profits was in 1980." Mr Petre says the workers understand the changes.

"After the Revolution, everyone in the factory was preoccupied by politics. The Front sorted things out with the workers. We have a 40-hour week, better wages, longer holidays. It is now stable."

None of the parties has campaigned in the factory. "Campaigning was banned here. Let the parties do it the other side of the wall. Anyway, the unions are active enough here," said Mr Petre. A hint that, in its own way, the Front's message is getting through.

Difficulties forecast on EC pension harmony

By Eric Short, Pensions Correspondent

A WIDENING variety of pension and social security arrangements among the various EC member countries makes harmonisation in this field completely problematical.

This is the disappointing conclusion reached by Mr Keith Exall, senior benefit consultant with William M Mercer Fraser, in the publication of the latest edition of the firm's International Benefit Guidelines.*

Mr Exall points out that as 1992 approaches, harmonisation is a key feature towards a single financial market.

Yet the update of the Guidelines shows that differences between the various systems is widening, with different EC countries pulling in different directions, rather than moving towards harmonisation.

He points out that some Governments, such as Austria, Portugal and Italy are encouraging employer-sponsored pension arrangements, while others, such as France, are discouraging them.

He went on to highlight other diverging practices with certain countries, like Belgium, increasing State social security provisions, while others are cutting back.

Mr Exall finds these trends rather disturbing, with cross-border mobility of employees becoming increasingly important.

The Guide describes in detail the social security and private employee benefit plan arrangements in 60 countries. It is hoped to include in the next issue details of practices in Eastern European countries.

It shows that West Germany has become one of the first countries to react to the demographic problems caused by an aging population by lifting the State pension age from 63 to 65.

* *International Benefit Guidelines 1990, available free from Hilary Kempton, William M. Mercer Fraser, Telford House, 14 Tothill Street, London SW1H 9NB.*

Yugoslav says civil war close

SERBIAN POLITICIAN Borisav Jovic became Yugoslav president by annual rotation on Tuesday and said the deeply divided country was close to civil war, Reuter reports from Belgrade

Mr Jovic, 62, the former vice-president, took over a country ravaged by economic crisis and ethnic rifts aggravated by calls for more independence by new non-communist authorities in the republics of Slovenia and Croatia.

"Blockades and disagreements...and autonomous attempts to implement them before changing the Yugoslav constitution are creating a very delicate situation in our country," Jovic said in an acceptance speech broadcast by Belgrade Radio.

"It could be said that this opens a new political and even constitutional crisis in the country. These dangers extend to the possibility of civil war and of Yugoslavia falling apart. We certainly must not and will not allow that," he said.

Ridley in pledge to Japan on car quotas for EC

By Ian Rodger in Tokyo

MR NICHOLAS RIDLEY, UK Secretary of State for Trade and Industry, has told the Japanese Government that Britain will do all it can to ensure cars made in the UK by Japanese companies will not be included in any transitional EC quota on Japanese car imports.

"There is no way they (the UK-made cars) can be treated in any other way than as EC-made products. We are quite adamant on this.

"The Treaty of Rome is on our side, and I am sure we will succeed," Mr Ridley said after he had spent a day meeting Japanese government leaders. In a speech at the Japan National Press Club he repeated the message, saying: "There will be no question of so-called transplants counting against any transitional quota".

In the past few months, agreement has been reached in the Community that after creation of the single market at the end of 1992, transitional restrictions on Japanese car imports will be needed. At the moment, some Community countries restrict Japanese car imports, while others do not.

Some EC car-makers have been lobbying to have all Japanese marque cars, wherever made, included in the transitional restrictions – not just those imported from Japan – and the EC Commission appears to have accepted their views to some extent.

Last month, Mr Frans Andriessen, EC External Relations Commissioner, said that cars made by Japanese companies in factories within the EC would have to be included in the transitional arrangements.

"We believe that category should be taken into account. To make the transitional period effective, we cannot completely forget about it," Mr Andriessen said.

Last year, there were indications that the Japanese Government was concerned that too large a portion of direct investments in the Community was going to the UK.

Farm subsidies battle grows

THE developing world is the real victim of a battle between the United States and European Community over farm trade subsidies, said US Agriculture Secretary Clayton Yeutter, Reuter reports from Strasbourg.

"Why should the farmers of the Third World have to compete against the treasuries of the developed world?," Mr Yeutter said after a meeting of members of the European Parliament in Strasbourg.

"I just do not see a legitimate basis for the continuation of export subsidies."

Washington and the EC have argued for years over each others' subsidies on exports of produce such as cereals and butter. The US says it abhors subsidies but will only cancel them if its trading competitors do likewise. The EC says it is prepared to curb subsidies but rejects the American call for their total elimination.

Call for tighter copyright checks

THE US has tabled a draft legal agreement for establishing stronger protection for intellectual property rights (IPR) under the General Agreement on Tariffs and Trade, William Dullforce reports from Geneva.

Mrs Carla Hills, US Trade Representative, said in Washington that achieving an accord in the Uruguay Round trade talks was an essential part of US efforts to raise the level of intellectual property protection around the world, "particularly in those countries that continue to deny adequate and effective protection".

Following the comprehensive IPR draft legal text proposed by the European Community last month, the US proposal should add momentum to reaching an agreement, Mrs Hills said.

The US text follows closely the pattern set by the EC document, but contains some important differences of emphasis. Where the EC draft calls for detailed protective measures for geographical indications, such as the appellations of origin important for European wine makers, the US document allocates only two paragraphs which fall far short of the level of protection deemed essential in Brussels.

Brussels wants to stiffen general performer and broadcasting rights under the copyright rules in the agreement, while the US puts greater emphasis on producers of sound recordings.

In protecting the lay-out designs of semiconductor chips, the EC wants to build on an international agreement concluded in Washington last year under the auspices of the World Intellectual Property Organisation, which the US and Japan have refused to sign. The US seeks a separate agreement in Gatt, which would severely limit the laws under which developing countries compulsorily license patents.

But on a broad range of issues, including a 20-year protection for patents and the mechanism for enforcing IPR rights, the US and EC are basically in accord.

A larger gap exists between the views on IPR protection of the two big trading blocs and a number of leading developing countries.

In a paper submitted to the negotiating group in Geneva this week, 12 countries, including Brazil, India and China, insisted that in any IPR system a balance had to be struck between the transfer of technology and protection for the rights of inventors.

Bangkok rail order

Lavalin, a Canadian engineering group, has won a C$3.3bn (£1bn) contract to build Bangkok's rapid transit system, but completing the financial package, including soft loans, may bring further delays, Robert Gibbens reports from Toronto.

Computer coalition joins Washington lobby

Eleven US companies add their voices to trade policy chorus, writes Louise Kehoe

A NEW and potentially powerful voice was added this week to the chorus of industry groups lobbying in Washington for trade law reforms.

The Computer Systems Policy Project (CSPP), representing 11 of the largest US computer companies with collective revenues of $120bn and 800,000 employees may quickly influence US high technology trade and competitiveness policies.

In its first public policy recommendations, CSPP addressed the controversial issues of dumping and foreign market access which have been at the heart of US high technology trade friction with Japan for several years.

The CSPP's recommendations also come as negotiators in the General Agreement on Tariffs and Trade are beginning intense bargaining in the Uruguay Round of talks.

CSPP, which was formed last year, stemmed from efforts by IBM to bring together US computer manufacturers to discuss trade and competitiveness issues and potential areas for collaboration in research and development. The group is the first exclusively to represent the views of US computer manufacturers and represents a powerful industry coalition.

The computer industry group has attempted to strike a balance between advocates of managed trade, who include executives of some of the leading US semiconductor manufacturers, and those who defend free trade principles without regard to the dynamic nature of high technology markets.

"We hope that we can encourage the US Government and the business community to work together to develop consistent trade policies that reflect commercial reality rather than ideology that represents either extreme of the spectrum," said Mr Rod Canion, chief executive of Compaq Computer.

"In the case of market access, we believe that it is particularly important to try to get past the very rigid concepts and recognise the reality of the age that we're in," he said.

The 11 members of the CSPP – IBM, Apple Computer, Compaq Computer, Control Data, Cray Research, Digital Equipment, Hewlett-Packard, NCR, Sun Microsystems, Tandem Computers and Unysis – have little direct experience of the market access and dumping problems upon which they are now taking a stand.

An exception is Cray Research, whose fight to gain access to the Japanese public procurement market for supercomputers was the subject of recently concluded bilateral US-Japanese trade negotiations.

The keen interest of the computer industry group has been

Their views represent a compromise between the interests of chip makers and buyers

prompted, however, by the negative effects that it has felt from the US Government's attempts in the mid-1980s to address dumping and unfair trade complaints filed by US semiconductor chip makers against Japan.

In the aftermath of the 1986 US-Japanese semiconductor trade agreement, which mandated "fair market value" pricing of computer memory chips and promised US and other foreign chip makers greater access to the Japanese semiconductor market, US computer makers protested a precipitous rise in memory chip prices and some decried the trade pact as "ill conceived".

Recognising that they too could become victims of dumping and exclusion from foreign markets, the computer makers have since moderated their public statements. In the CSPP policy recommendations they acknowledge that "open foreign markets are crucial to the competitiveness of the American high technology industries" and state that anti-dumping laws may significantly affect their businesses.

The specific CSPP recommendations represent a compromise between the interests of chip makers and buyers. While calling for stronger anti-dumping measures they also recommend a more flexible approach to determining the "fair price" of foreign-made products sold in the US. The common practice of "forward pricing" in which new products are priced below the initial costs of production in anticipation of lower costs with rising sales volumes should be acknowledged in revised Gatt rules, the computer makers said.

The computer group also suggests that dumping duties should not be imposed on imported products that are not available from US manufacturers in sufficient quantities to satisfy total domestic demands.

On the issue of market access CSPP advocates "a dynamic process that refocuses the market-opening initiative as products, technologies and markets change." This is in contrast with the US-Japan semiconductor trade pact which set a five-year target for increased foreign share of the Japanese semiconductor market.

"We would pick specific measures (of increased market access), but they would be on an annual basis," said Mr Canion. The CSPP recommends that changing market conditions and several other factors be taken into account in measuring progress toward market opening.

The approach proposed by the CSPP may be more idealistic than practical in an environment of trade friction, US semiconductor industry officials said.

While the chip makers differ with CSPP on some of the details of their proposals, they none the less welcomed the CSPP recommendations as a positive step. "We will be happy to work with CSPP to try to reach a consensus," said Mr Andrew Procassini, president of the Semiconductor Industry Association, a US semiconductor industry trade group.

US standards drive to boost Saudi trade

By Nancy Dunne in Washington

THE US Commerce Department and a group of American businessmen have, for the first time, sent a US standards expert to Saudi Arabia in hopes of reversing a precipitous drop in US exports in the market.

Hitherto, the US has failed to respond to the call for industrialised country expertise from Saudi Arabia's Specifications and Standards Organisation (SASO) in developing 42,000 technical standards for products.

Japan, the UK, Germany, France, Austria and New Zealand have already sent advisers. These have helped SASO write more than 400 mandatory standards, many of which have excluded US exports. Several US companies, including General Electric, Clorox and Westinghouse, say they have been hurt by the new standards.

According to the American/Saudi Roundtable, SASO chose the European voltage standard of 127 volts, permitting imports of Japanese and Electric power equipment but excluding US equipment. The US share of Saudi imports has dropped in 10 years from 37 to 15 per cent said the president of Roundtable, Mr Gilbert Dwyer.

The US Commerce Department's National Institute of Standards and Technology has asked the Roundtable to undertake a fundraising in the private sector to establish a US presence for Saudi standards development. This year, 55 US companies have raised $250,000 and have send Mr Gilbert Tupper, a former Westinghouse Electric Corporation executive, to direct a three-year pilot programme to help SASO – and American business.

The standards written in Saudi Arabia will automatically be adopted by Bahrain, Kuwait, Oman, Qatar and the UAE.

UK group signs Burma oil deal

PREMIER Consolidated Oilfields, the UK independent oil company, has signed a production-sharing contract with the Rangoon Government for oil and gas exploration in two offshore blocks off Burma's Tennasserim Coast, Chit Tun reports from Rangoon.

It is the first foreign oil company to have come in for production-sharing offshore operations in Burma since four foreign groups quit in the mid-1970s after spending three years exploring blocks in the Martaban Gulf and off the Arakan coast, west Burma.

These groups comprised Esso, a Japanese consortium, a French-German-Italian consortium operated by Compagnie Françaises des Pétroles, and a venture between City Services and Sun Oil of the US.

Two other UK oil companies, Croft Exploration and Kirkland Resources are already involved in Burma's onshore operations.

US business forms trade pressure group

By Nancy Dunne in Washington

US business leaders and two former US trade representatives yesterday announced formation of "the largest coalition in history" to promote a strong package of trade reforms in the Uruguay Round of international trade talks.

Mr Bill Brock, Trade Representative under President Reagan and co-chairman of the new MTN Coalition, named after the multilateral trade talks, said that once negotiations are concluded, members of the coalition, which includes 13,000 companies, would determine if or not to support a campaign to get implementing legislation through Congress.

Strong support by as many domestic interests as possible is seen by the Bush Administration as vital in getting Congressional approval for whatever package of reforms emerges from the Round, due to end next December.

Mr Bob Strauss, Trade Representative in the Carter Administration, the other co-chairman, stressed the need to "load that negotiating table as full as we can, so nobody can walk away from it".

Failure to get Gatt reforms will have "some serious, serious results," he said, "but not many people give a damn about the Uruguay Round. They don't pay attention to substantive issues".

Besides company and business groups, the coalition encompasses consumer and farming interests. No labour representatives have yet joined, partly due to Gatt's failure to include labour rights issues in the Round, Mr Strauss said. "They're going to keep their powder dry," he added, but they might join later.

Both former officials noted numerous obstacles to a strong package of agreements. Mr Strauss said: "This has been a bitter Round".

Mr Brock said it would be virtually impossible to get Third World participation without significant farming reforms.

Greek airline in fleet renewal plan

By Kerin Hope in Athens

OLYMPIC AIRWAYS, the Greek state flag carrier, has launched a $800m (£484m) fleet renewal plan by exchanging three Boeing 767s ordered two years ago for six Boeing 737-400s, to be delivered in 1991.

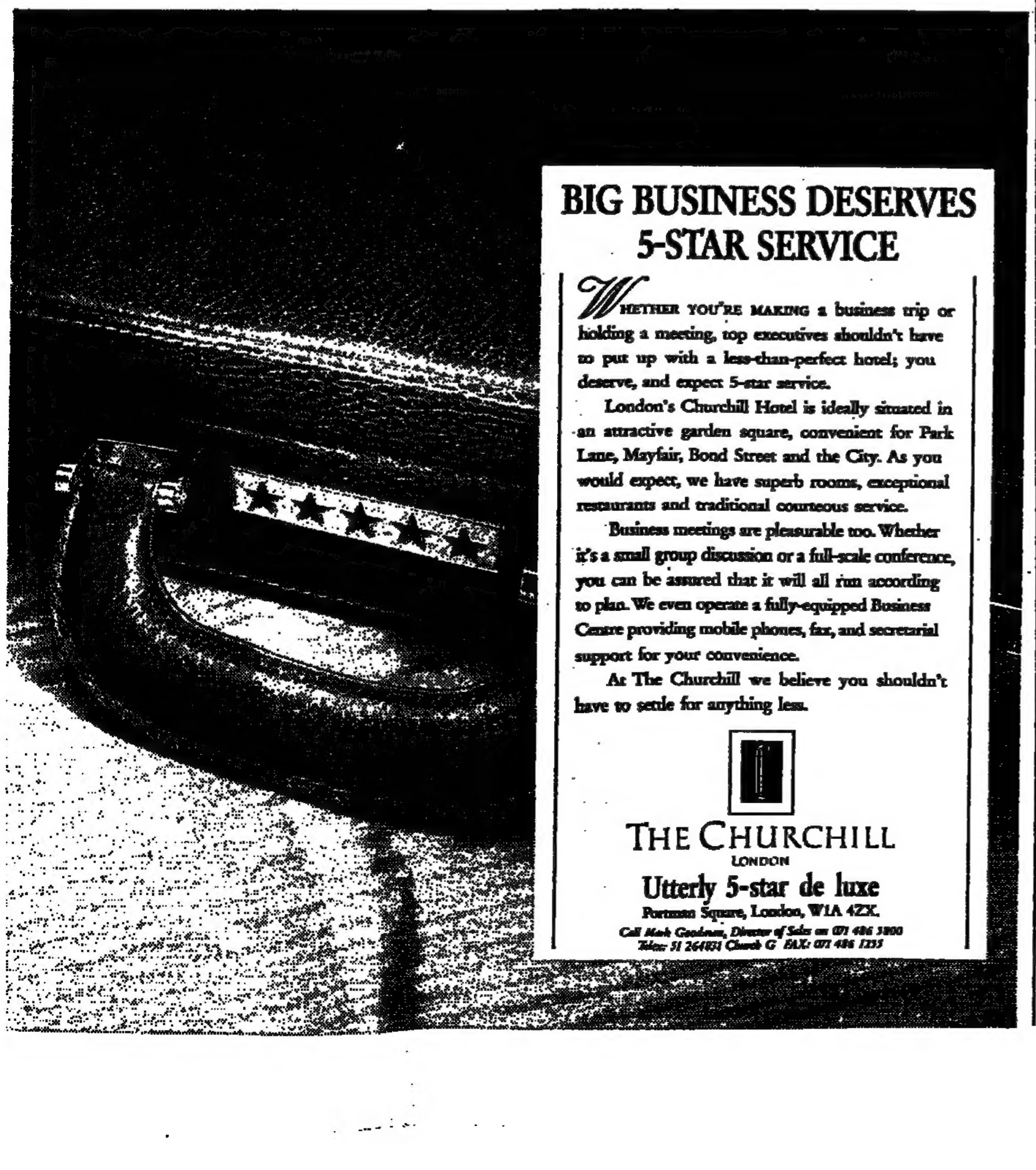
The airline intends to buy a total of 13 new aircraft over the next four years under the current purchase plan, including four short-haul aircraft for its subsidiary, Olympic Aviation.

Its longer-term strategy calls for acquiring another 14 aircraft by the early 2000s.

As part of the exchange agreement, Olympic took out options on another 12 Boeing 737s and will order two 767s at a later date. They are to be delivered by 1996, when the carrier's long-haul network is expected to expand in the Far East, Mr Loukas Grammatikos, Olympic's director-general, said.

The Boeing 767s, ordered by the previous Socialist government, "don't fit the needs of our network at present, as we have to focus on renewing our medium-range fleet".

To boost capacity on its European network, Olympic has also ordered two A300-600s from Airbus, the European aircraft consortium, for delivery in 1992 and 1994. A Boeing 747-400 is also on order. Three Boeing 727s were bought from Lufthansa last month for $28m.



Car workers at Hyundai start indefinite strike

By John Ridding in Seoul

WORKERS AT Hyundai Motor Corporation, South Korea's largest car manufacturer, yesterday launched an indefinite general strike in support of demands for wage increases and reduced working hours.

The walkout by 27,000 union workers came only one week after the plant had re-opened following a strike held in sympathy with workers at Hyundai Heavy Industries, South Korea's largest shipyard. Riot police stormed the shipyard strike at the end of last month, triggering disputes at several other Hyundai Group subsidiaries.

The strike at HMC is the first big strike this year in which pay and working conditions have been the principal issue. Trade unions have generally accepted single figure wage increases in the current bargaining round following pressure from the government and management which blame the large pay awards of recent years on a slowdown in economic growth and exports.

Strikes have also been less frequent than in the last three years. According to Ministry of Labour statistics, the number of industrial disputes so far this year has fallen by more than 70 per cent compared to 1989.

According to analysts, the decline in industrial unrest reflects a tougher government line to crack down on illegal labour disputes. It also reflects a perceived loss of public sympathy for trade union demands after three years of 20 per cent average wage rises and severe industrial disruption.

Officials at HMC threatened to seek punitive legal action against union leaders and charged that they had launched the latest strike without going through required procedures. These include a 15-day strike notice to the Labour Ministry.

However, the union leadership denied the charge and said the strike was called to press union demands after failing to reach agreement with the management despite 22 rounds of negotiations since February. Hyundai workers demand an 18.95 per cent raise in their average monthly pay of $621 and a reduction from 44 to 42 hours in their working week. However, the company says it can give only a 5.95 per cent wage rise.

Manila sets out bases position

By Greg Hutchinson in Manila

The Philippines, on the second day of exploratory talks on the future of the largest American military facilities overseas, formally notified the US it would terminate the current military bases agreement next year. But it left the door open to a new accord.

It almost certainly means that if American forces are to stay beyond that date – and most analysts believe they will – the US and the Philippines must negotiate a treaty acceptable to each of their legislatures laying down the nature of the future defence and security relationship.

The current agreement is an accord between the executive departments of both governments.

Communist rebels on Tuesday threatened more attacks on American servicemen in the Philippines in a campaign to drive out US military forces.

The communist New People's Army, accusing US forces of torture, claimed responsibility for killing two US airmen on Sunday. "We will not stop until abuses by American officers and soldiers have ceased. We will not stop until all US bases and all American occupation soldiers are kicked out of the country," the NPA said.

Local difficulty for Malaysian car assemblers

Lim Siong Hoon on the implications of higher minimum domestic content rules

MALAYSIA'S 10 car assemblers will have to ponder once more life after Proton.

Five years ago, the introduction of the domestic-built Proton car, followed by tariff protection, nearly killed them. They survived, with a 30 per cent share of the local market, only because Proton's production limitations have meant it has not been able to cope with demand.

Now the assemblers must struggle with another problem: higher minimum local content requirements.

Until now, assemblers have had no problems fulfilling the local content requirement of 30 per cent by value of an imported CKD (completely-knocked-down) pack.

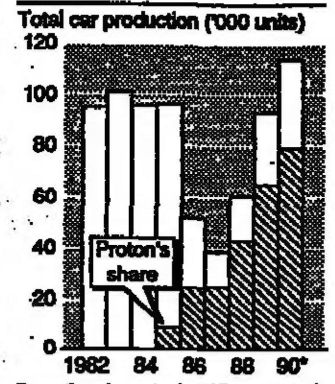
Another jump in the ratio, due to be enforced by 1995, will require components manufacturers to put in place a new layer of investment and technology. The industry is now characterised by small-scale production and low-technology items such as seats, batteries and tyres.

The new ratio – 60 per cent is suggested – is being hammered out in meetings, which started last month, between the Automobile Federation of Malaysia (AFM), representing the assemblers, and the Government.

The assemblers are: Swedish

Malaysia

Total car production ('000 units)



Domestic and export sales of Proton, which started in September 1985, approximate the production. * Projection

Motor Assemblies (Volvo), Assembly Services (Toyota, Daihatsu), Tan Chong Motor Assemblies (Nissan, Subaru, Audi), Associated Motor Industries (BMW, Ford, Land Rover, Suzuki, Mazda passenger vehicles), Oriental Assemblers (Honda), Kah Motor (Honda), Lion Suzuki (Suzuki), Cycle & Carriage Bintang (Mercedes, Mitsubishi, Mazda commercial vehicles), Tatab Concessionaires, and Automotive Manufacturers (Citroen, Isuzu, Tata).

Last year, the assemblers together produced just 28,000 cars, not enough to justify big new investments. One possibility would be to tap Proton's component suppliers which produce 65 per cent of the car.

But these suppliers will have a problem. More than 200 variations of car and van models are produced every few years. The Government looks unhappily at this diversity, seeing it as a serious obstacle to building a components industry in a small car market. It suggested two alternatives: closing all, save three, assembly plants or restricting model variations to three a year. Assemblers refused to co-operate, and both ideas were abandoned.

Now, by simply raising the target on local content, the Government has left assemblers to seek sources for their own components. On this score they either flourish or perish.

Indirectly and inevitably, says an industry executive, many new models will not meet the new local content target. Once these models are banished from the market, few of the assembly plants will have to close down.

Assemblers have come to accept a higher local content usage partly because other options are unavailable. What is more important, the beginnings of an Association of South East Asian Nations (Asean) quasi-common market on car components offers them hope of continuing business.

For more than a decade, economic nationalism prevented Asean from agreeing to a joint car production. The alternative was to create a free-trade area for car components produced in its six member-states. Even then not all agree. But this year, Malaysia, the Philippines and Thailand will moved towards that goal.

Such collaboration explains why Japanese companies have invested in a network of component plants in Asean. Toyota and UMW, the Malaysian assembler and distributor, will spend $17m (£10m) for a rack and steering plant to be opened in 1992. The same year, in the Philippines, a $51m Toyota transmission plant will start up.

Mitsubishi already ships transmission parts from the Philippines to its Thai affiliate. By 1992, Malaysia will export engine components from Hicom, a state-owned company which shares a 30 per cent stake with Mitsubishi in Proton.

This "strategic alliance" helps to cut down not just the overall costs of Asean cars. Components from any of the countries also count as local content at home.

Such arrangements are incentives for Oriental, the Malaysian distributor, to press on. They are contemplating a $74m investment in the country though Honda sold barely 6,000 cars last year.

Malaysia counts on such investments to help realise its dream as a big car exporter. Unable to make big on its Proton car exports, its tentative goal is to build an impressive components industry.

Using government funds and Mitsubishi technology, Proton was meant to steer the country into the car export league. Last year, five years after its inauguration, Proton exports stood at 11,000 units, 90 per cent of them to the UK. Overseas sales are about 15 per cent of its total production.

That limited achievement abroad was wrought at a cost to the domestic market. To sustain cheap exports, Malaysians are paying exorbitant prices – equivalent to two years salary for an above-average-pay office worker.

The need to price Proton highly in a protected market succeeded merely in shrinking consumption by half, within two years of Proton's birth. Last year's economic growth was the highest in a decade. Yet car demand was 10 per cent below the peak of 101,000 units in 1983.

Proton's overall sales this year could rise another 20 per cent to 80,000 units, its capacity limit. But this is small consolation for the car maker which had planned to produce 120,000 units by its fifth year.

Peking policeman pushes a cameraman from student protest at the Australian embassy demanding return of college fees

Amnesty presses Peking over democracy prisoners

By Colina MacDougall

AMNESTY International has today called on the Chinese government to reveal the fate of thousands of prisoners arrested since the massacre in Peking last June and has sent Prime Minister Li Peng a list of more than 650 individuals it has identified.

The Chinese authorities have said the arrests are an internal matter, saying only that about 6,000 people were arrested and that several hundred have been released. Informed outsiders believe the true number of arrests to be in the tens of thousands. Most are being held without trial, and many suffer torture and beatings.

Many of those named in Amnesty International's list are prisoners of conscience, it notes. They were arrested solely for the peaceful exercise of their rights. One is Liu Xiaobo, the writer, one of four who started a hunger strike in Tiananmen Square on June 2 and later negotiated with the army for the withdrawal of the students.

Another is Zheng Xuguang, 20, from the Peking Aeronautical College, one of the 21 "most wanted" leaders of the student movement, caught in hiding in Canton last summer and now in Qincheng prison, Peking.

"The killings and arrests last year are just the most recent dramatic examples of sweeping and persistent persecution in China," Amnesty International said.

The organisation also publishes today a report detailing the cases of 18 prisoners, including Tibetan activists, Roman Catholic and Protestant religious leaders and supporters of the 1970s democracy movement still serving long prison sentences.

Angolan rebels claim victory

By Julian Borger in Mavinga

Fierce fighting has broken out around Mavinga in the south-east of Angola where Unita rebels are claiming to have scored a big victory only three weeks after direct peace talks opened between the Angolan government and the rebel movement.

Journalists were taken by Unita over the weekend to see the scene of a battle seven miles north-west of Mavinga, a rebel stronghold since 1981. Large areas of forest had been burnt to the ground and the charred wrecks of a Soviet-built T55 tank, six BMP-1 armoured cars, and large numbers of lorries were scattered across the area.

According to Unita officers, the battle took place last Sunday and Monday, and was decisive in ending a government offensive launched last December on Mavinga.

Government spokesmen in Luanda have acknowledged that they have withdrawn their forces from the Mavinga area, but said it was a goodwill gesture to help the progress of peace negotiations.

Mr Jonas Savimbi, leader of Unita, expressed optimism that direct contacts between the two sides, begun in April in Evora, Portugal, would continue, and that a ceasefire was possible in the next few months. Mr Savimbi, however, reiterated his refusal to recognise the government of the ruling MPLA party.

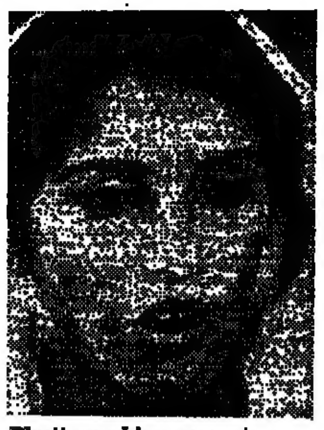
Bhutto seeks Islamic states' support over Kashmir

By Robin Pauley, Asia Editor

MS Benazir Bhutto, Pakistan's Prime Minister, arrived in Iran yesterday to open her tour of Islamic countries to seek support for Pakistan's stand on the increasingly tense dispute over Kashmir.

Ms Bhutto is looking for financial, military and political support from eight countries: Iran, Turkey, Syria, Jordan, North Yemen, Egypt, Libya and Tunisia. She wants Islamic support in a high risk strategy which could raise Kashmir from a local dispute to, at worst, a pan-Islamic issue with the characteristics of a *jihad* (holy war).

Ms Bhutto, the only woman Moslem head of state and one of the few democratically elected Moslem leaders, travelled immediately to the shrine of Imam Reza. She was due to go to Tehran later for talks with Iranian officials.



Bhutto: seeking support

Iran and Saudi Arabia are by far the largest, most powerful potential Moslem supporters. Saudi Arabia does not appear on the official itinerary but there are repeated unconfirmed reports that both Saudi Arabia and Iran have offered air support to Pakistan in an emergency.

Pakistan's military and diplomatic links with both countries are close and Iran has a land border with Pakistan across which supplies could be easily transported.

Kashmir was divided at partition. The Indian state of Jammu and Kashmir comprises about two-thirds of the territory and has a Moslem majority. It is the only Indian state without a Hindu majority. It is therefore an essential element of India's secular character.

Pakistan's third of the territory is known as Azad (Free) Kashmir. Moslems on both sides of the border are agitating for independence.

Pakistan says the Kashmiris must be allowed to determine their future, but means by this that all Kashmir should be under Pakistani control if the Moslems wish that; Pakistan would be as hostile to Kashmir becoming an autonomous state as India. Such a move would lead to other separatist moves in Pakistan, notably in Baluchistan and Sind, which could spell the disintegration of the country.

Ms Bhutto's international Moslem initiative contrasts with her previous efforts to contain the dispute and avoid inflammatory comments and actions. Both she and Mr V.P. Singh, the Indian Prime Minister, are unwilling to see the dispute degenerate yet again into war. But there are signs that Ms Bhutto's increasingly beleaguered minority government may be looking for the "traditional" distraction of an external crisis.

Mr Singh, also heading a minority government and so far unable to bring the disturbances under control, faces pressure from opposition figures and Hindu fundamentalists to take a strong military stance. Pakistan denies Indian charges that it arms and trains Moslem militants. More than 300 people have been killed in the secessionist uprising since mid-January.

India and Pakistan have twice gone to war over the disputed territory. If there were another war Pakistan would again face certain defeat on its own. Military support, particularly in the air, from other Moslem states would change the equation.

A Pakistani Foreign Ministry spokesman insisted that the purpose of Ms Bhutto's trip was peaceful.

Algeria worries over growing black market in drugs

By Francis Ghiles in Algiers

SINCE the end of the holy month of Ramadan two weeks ago the Algerian authorities have seized an estimated £75m ($126m) worth of black market goods, as much as police and Customs officers impounded during the entire first quarter of the year.

This crackdown signals the Government's determination to curtail the speculative black economy which has fuelled the huge price rises of recent months.

Among the contraband seized are thousands of items of electrical equipment, white goods, children's clothing and spare parts, as well as 29¼ tonnes of tea, 35 tonnes of groundnut oil, and 14 tonnes of semolina.

Even more worrying for the authorities is the emergence of a flourishing black market in drugs, mainly hashish.

Officials report that 88 tonnes of hashish have been illegally imported from Morocco since the beginning of the year, and 64 tonnes illegally exported, mainly through Italy; hence the enormous popularity of the Annaba to Naples and Tunis to Sicily ferry crossings.

Thousands of animals are driven across the frontier in military-style operations using walkie-talkies . . .

Tunisians realised to their amazement recently that a majority of passengers on the ferries to Sicily were either Moroccans or Algerians.

The black market has also exported foodstuffs which are cheaper in Algeria than in neighbouring countries because they are subsidised.

Illegal exports include semolina, which goes to make the national North African dish of couscous, milk, sugar and coffee, not to mention washing powder. Thousands of live animals, particularly sheep, are driven across the frontier military-style operations involving walkie-talkies and even the use of weapons.

Four weeks ahead of local and provincial elections which will be the first free polls in the history of Algeria, the Government headed by Mr Mouloud Hamrouche is determined to show that reforms aimed at liberalising the economy do not mean giving a free rein to racketeering and black marketing.

Many Algerians have still not recovered from the shock of seeing the price of certain foodstuffs increase four-fold during the month of fasting only to fall back as soon as the feast of Id el-Fitr was over.

Britain presses US to help with HK refugees

By Lionel Barber in Washington

THE British Government is pressing President George Bush to set up a new regional holding centre for boat people in one of the Pacific territories of the US, possibly Guam, amid concern about the rising number of Vietnamese refugees in Hong Kong.

The British proposal aims to turn the tables on the US Administration, which has criticised the planned forcible repatriation of boat people while failing to put forward alternative solutions, according to UK officials.

Much to the irritation of the administration, which regards the plan as a "non-starter", the British will go public with their proposal at an international meeting of interested parties in Manila later this week.

Last January, British hopes fora compromise on the future of theboat people were dashed when theUS State Department proposed a12-month moratorium on forced repatriation, thus blocking an international consensus on the refugee issue in Geneva.

Since then, the British have gone ahead with United Nations backed procedures for separating ("screening out") Vietnamese economic migrants from genuine political refugees. Some 8,000 refugees have now been screened out, but only 200 have volunteered to go back to Vietnam.

Mr Francis Maude, junior Foreign Officer minister, recently wrote to Mr Lawrence Eagleburger, deputy Secretary of State, warning him that the number of "screened out" refugees could rise to 10,000 by July, causing severe problems in the Hong Kong camps.

Under the British plan, the US would be asked to assume responsibility for these refugees. A second suggestion is that the US – which has felt free to raise doubts about the fairness of screening procedures – should apply them at the new regional centre, possibly Guam (used as a stopover point for Vietnamese after the end of the Vietnam war).

The relocation plan was first raised last March during a meeting of senior US and UK officials in London, and later by Mrs Thatcher during her meeting in Bermuda with President Bush, a US official confirmed.

Iraq demands Italy compensate seizure

IRAQ'S Foreign Minister yesterday demanded that Italy compensate Iraq for nearly 100 tons of steel parts that were seized on suspicions they were destined for an alleged "super gun", AP reports from Rome.

Mr Tariq Aziz's visit to Italy began shortly after Italian police blocked export of the material – most of it about to be loaded at a Naples dock for transport to the Middle East. Police said the parts, ordered by Iraq and manufactured in Italy, were suspected of being components of a giant artillery piece capable of firing nuclear warheads or chemical weapons hundreds of kilometres.

Mr Aziz yesterday reiterated his contention that the material was destined for petrochemical projects. In Rome to visit UN Secretary-General Javier Perez de Cuellar about stalled Iran-Iraq peace talks, Mr Aziz also met with Italian Foreign Minister Mr Gianni De Michelis over the seizure of the parts.

Iraq said on Monday said it would take legal action against Britain, Italy, Turkey, Greece and any other countries which take "illegal" measures to stop exports of equipment ordered by Iraq.

Mr Aziz said that while he did not make threats in his meeting with Mr De Michelis, Iraq would demand compensation for material which was paid for but not delivered and that future trade and other deals could be jeopardised.

Saudi unease at Yemeni unity

Victor Mallet describes an Arab merger worth taking seriously

DECLARATIONS about Arab unity or the merger of Arab states are usually greeted with well-deserved scepticism by Arabs and outsiders alike, but the imminent unity of the two Yemens is a far cry from the North African merger fantasies of Colonel Muammer Gadaffi of Libya.

The leaders of North and South Yemen, eager to forestall any opposition, are pressing ahead with plans to declare a united state within a matter of weeks – six months ahead of schedule.

They have already embarked on joint oil exploration in a previously disputed border zone, allowed free movement of goods and people between the two countries, permitted the use of both national currencies throughout the Yemens, and announced the dissolution of their respective armed forces ahead of the merger.

Strategically-placed at the mouth of the Red Sea, a united Yemen of some 12m people would be the Arabian peninsula's most populous nation.

The poverty which characterises the Yemens today could eventually be mitigated by further oil discoveries and the development of agriculture, and a united Yemen would be more forceful in any negotiations about its long-disputed borders with Saudi Arabia.

At the weekend Saudi Arabia reaffirmed its public support for Yemeni unity and denied attempting to disrupt the process by supporting the dissident and warlike Yemeni tribesmen of the north.

Privately, however, the Saudi royal family is worried about the political and security implications of a united Yemen after years of Saudi economic and social superiority; more than 1m Yemenis work in the Kingdom as migrant labourers.

Although the more numerous North Yemenis will be dominant after the merger, the Saudis fear that the communist and secular principles of the South Yemeni Government will dilute the more traditional Islamic values of the North.

The two Yemens, moreover, have outlined plans for a constitutional, democratic state which could undermine the legitimacy of the Gulf's traditional ruling families at a time when pro-democracy campaigners are already becoming increasingly active in Kuwait.

Saudi Arabia is particularly anxious about the alliance between Iraq and North Yemen. Iraqi military advisers are assisting the Yemeni armed forces, and the Saudis - although they now have tolerably good relations with Baghdad - fear the long-term effects of Iraqi influence on their southern as well as their northern border.

Even if Yemeni unity is declared as planned by the end of this month, the integration process will be fraught with difficulties.

The northern tribesmen will continue jealously to guard their lucrative smuggling trade from the authority – and the taxes – of the central government, while civil servants in Sanaa and Aden, the two capitals, will be reluctant to lose their influence in a united bureaucracy.

At the upper echelons of the future political and military establishments, however, the hierarchy appears to have been largely decided.

President Ali Abdullah Saleh, the army colonel who has brought stability to the North since coming to power in 1978, will be the Yemeni President. Mr Ali Salem al-Baidh, head of the ruling South Yemeni Socialist Party, is expected to be vice-President, while Mr Haider Abu Bakr al-Attas, President of the South, may become Prime Minister.

One of the main obstacles to a harmonious merger is the dispute over the role of Islamic *sharia* law. The draft constitution, which should be ratified soon by the two countries' national assemblies, enshrines *sharia* as the main source of future legislation.

Some devout Zaidis of the north want *sharia* to be the only source of legislation, while those who have benefited from communism in the south fear that secular principles will be thrown out of the window. Three bombs blasts recently in Sanaa in the North were blamed on Moslem extremists opposed to unity; in the South, thousands of women demonstrated earlier this year for women's rights to be guaranteed in the constitution.


NOW THE POLICE HAVE A FIGHTING CHANCE OF
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OVERSEAS NEWS

Ivory Coast opposition faces testing time

Mark Huband in Abidjan looks at the ensuing political struggle after recent reforms

RAPID political reform in the Ivory Coast has taken the country by surprise. Last week's decision to legalise opposition political parties came at a time when the Government's traditional argument that a multi-party system will lead to tribal conflict still remains the most potent claim of conservatives.

Since 1982, when the Ivory Coast's first opposition party, the Ivorian Popular Front (FPI), was founded, criticism has grown of an evermore stagnant and undemocratic political system.

Following weeks of rioting and strikes, five opposition parties were legalised on April 31, when the ruling Democratic Party finally gave in to popular pressure. At the same time, severe economic austerity measures were scrapped, denting the credibility of the Government.

Only the left-of-centre FPI and its leader, the historian Laurent Gbagbo, have any genuine political experience, though only as members of the illegal opposition and not in government.

Mr Gbagbo has campaigned for eight years for the creation of multi-party democracy amid spells of voluntary exile, imprisonment and arrest, the most recent being in March.

Although there is as yet no sign that the opposition parties will form a coalition, the Ivorian Workers Party (PTI), the Social Democratic Union (USD) and the Ivorian Socialist Party (PSI) are all on the left of the political spectrum.

Only the Republican Party (PR) of Robert Gbai Tagro marks a significant exception. But the 30-year rule of President Felix Houphouet-Boigny's right-of-centre Democratic Party, which has the only claim to being genuinely nationwide in its support and organisation, means that even a left wing grouping would meet a considerable force from the right.

However, the political upheaval of the past few months, and the announcement that a presidential successor will be named at the forthcoming Democratic Pary congress, has created a leadership struggle within the ruling administration.

The President of the National Assembly, Mr Henri Konan Bedie, is the constitutional successor to the President. However, he is only able to hold the post for six weeks, after which elections must be organised.

Mr Bedie is expected by some to win the presidential election. But, the defence minister, Mr Jean Konan Banny, is also expected to fight for the position. Both come from the politically dominant Baoule tribe of Mr Houphouet-Boigny.

The third most powerful man in the Government, Mr Philipe Yace, chairman of the political and economic council, is also a possible candidate.

Low cocoa prices have hit the Ivory Coast economy

The protests in February and March which sparked the present crisis forced the Government to abandon private sector tax increases of 10 per cent and public sector pay cuts of up to 40 per cent, measures which were aimed at filling a $390m financing gap in the 1990 budget.

The Government measures were part of an 18-month structural adjustment programme agreed with the World Bank and the International Monetary Fund in July 1989 which had a reduction in Government spending as its major aim.

Last September the Government finally acceded to pressure for a reduction in the state subsidy paid to farmers for their cocoa and coffee crops. The state agricultural marketing board, the Caisse de Stabilisation, had accumulated $440m losses from 1989 alone, and the guaranteed price paid to farmers was cut by half with the intention of creating a profit by September 1990.

A cabinet reshuffle in October 1989 saw the number of Government ministries cut by 10 to 29 as part of the same austerity plan.

Both cost-cutting measures had been regarded as long overdue. The world price of cocoa had fallen from its high in the early 1980s of up to £1,500 ($2,520) a tonne to around £600 a tonne, but the dramatic fall had not been matched by a similar drop in the standard of living.

Mr Houphouet-Boigny has insisted that the crisis will pass. But despite this claim, it has become increasingly clear that the Government had not foreseen the scale and nature of the opposition to the measures it was intending to push through.

Opposition political parties consider the scrapping of the plan to be vindication of their criticisms of the policy of cuts. Throughout the past few months they have demanded the repatriation of funds held abroad by the business elite, as well as the abolition of widespread tax exemptions, as the means of increasing state income.

Now they are attempting to improve their organisation and to present themselves as credible alternatives to the 30-year old regime which is one of the most stable in Africa. Few if any of the opposition leaders are known outside the capital, Abidjan, though since the lifting of the ban on political parties they have received coverage in the state-owned press.

However, their legalisation has come at a time when, at the age of 84, Mr Houphouet-Boigny is about to retire. Whoever replaces him as leader of the Democratic Party will find him an extremely difficult act to follow.

The succession has long been a taboo subject with the result that few of the Democratic Party's leading members have been allowed to develop the popular appeal of the President – a factor which may put all potential candidates from the various parties on a similar footing when the campaign starts in earnest.

Optimistic Kashmir governor holds firm to Delhi line

By David Housego in Srinagar

IN THE atmosphere of bitterness and fear that dominates the Kashmir Valley, Mr Jagmohan, the governor of the state, is one of the few men to project a note of optimism on India's troubled northern territory.

The situation is "definitely improving," he said in an interview. "We are better equipped to handle it and we have the upper hand. . . . our assessment is that unless something massive happens, like large-scale infiltration from Pakistan, we will be able to contain it."

Mr Jagmohan, who was also governor of Jammu and Kashmir in the mid-1980s, took over for a second term in January when the state was brought under direct rule from New Delhi.

Since then, he has shouldered the intense unpopularity of the long spells of curfew in the major towns of the Valley and of the often brutal house-to-house searches carried out by the security forces.

As signs of improvement, Mr Jagmohan cites the recent relaxation of curfew in Srinagar for much of the day, the shift of the administration last week – albeit under heavy escort – to Srinagar, the summer capital, the arrest of leading militants and the proposed opening next week of high schools and universities.

Mr Jagmohan, who resists pressures from Mr George Fernandes, Minister for Kashmir Affairs in New Delhi, for more rapid moves towards a political dialogue, has no doubt that he has the abilities to match the magnitude of the task before him.

He says of himself: "I was the best civil servant the country produced. I was so good they wanted me to become a Central Minister."

He says he is the only man to have served two terms as Lt-Governor of Delhi – part of the time during Mrs Indira Gandhi's controversial emergency rule.

An enduring difficulty as he sees it is the "vicious circle" of random killings by militants which draws out the heavy hand of the security forces.

"Every time we restore normal conditions, these people try to disturb it," he says. "Our position is that we have to eliminate them as we have been doing with the hard-core terrorists. Once that is done, we can remove the (security) forces."

Mr Jagmohan concedes that there have been excesses by the security forces. He says: "In some cases they might have over-reacted. They are under stress."

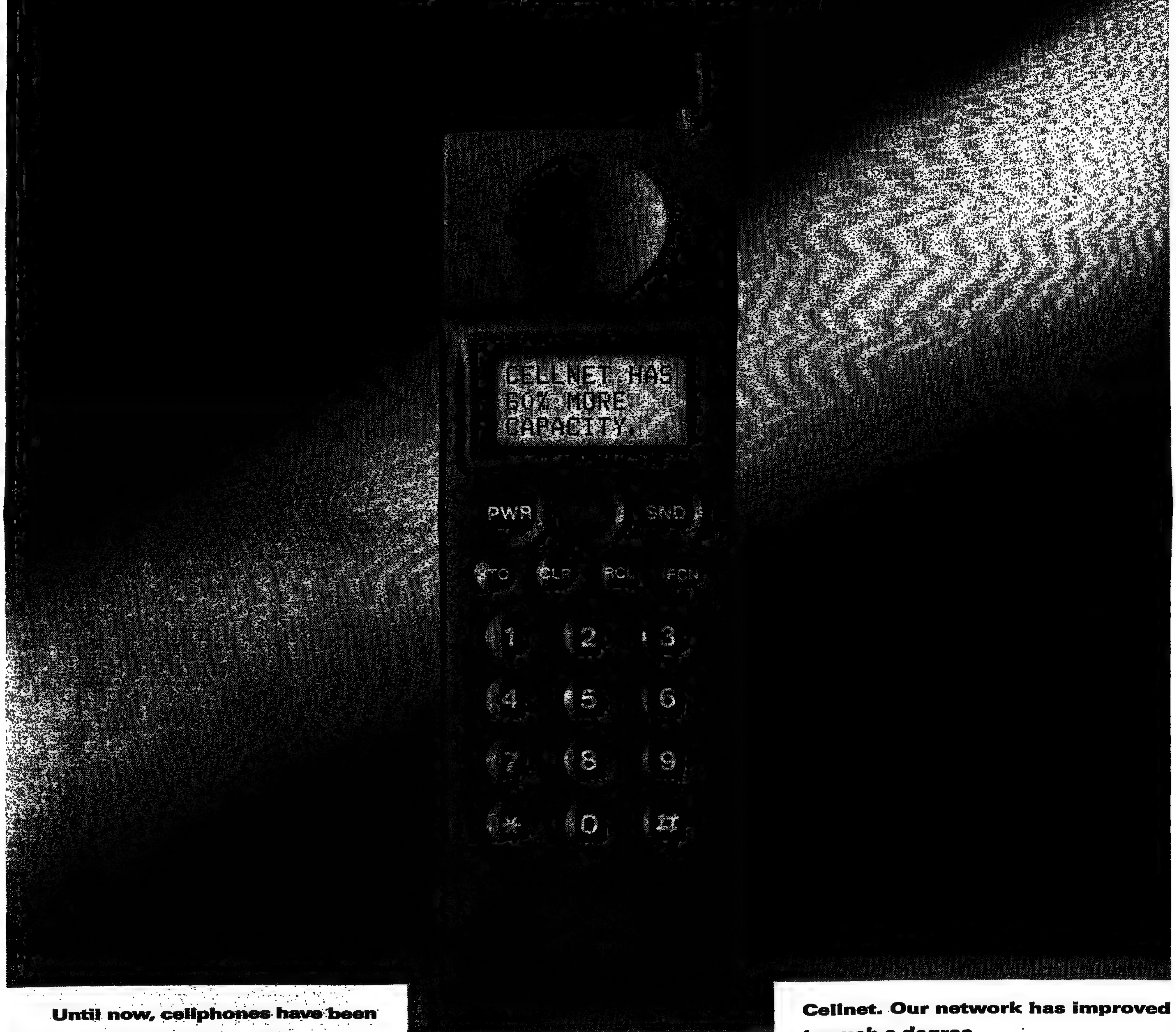
Mr Jagmohan holds out no hope of amendments to the Indian constitution to meet Kashmiri aspirations for greater autonomy.

He sees a "fair and just system of administration" and development programmes geared to the needs of the common citizen as "solving the problem to a very large extent."

His own belief is that the priority should be to eliminate what he calls the "terrorists" and "criminal elements."

Once peace has returned and people are no longer frightened, elections could be held. But he suggests no timetable for the end to the Kashmir nightmare.

CONVERSATION PIECE.



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● US COMMISSION REPORT ON LOCKERBIE

FAA faces uphill battle to assert its regulatory role

By Roderick Oram in New York

UNDER intense pressure from passengers, politicians and airlines since the Lockerbie disaster, the Federal Aviation Administration has struggled to fulfil its role as the US regulatory agency charged with aviation security.

The uphill battle to balance competing interests has already claimed one casualty in the FAA and more could follow in the wake of the critical report from the presidential commission.

Last week, Mr Raymond Salazar, the FAA's director of civil aviation security, was given a new job as head of the agency's management training centre in Florida.

Confusion and controversy over programmes he ran had grown after Lockerbie. Two groups of victims' families had called repeatedly for his dismissal.

Within days of the Lockerbie disaster, the FAA had rushed out a long list of new safety requirements US airlines had to implement abroad. The FAA has no power to order foreign carriers to use the procedures for flights coming into the US.

Among its requirements, the FAA ordered that all bags bound for the US had to be X-rayed or hand searched; certain passengers who met high risk criteria had to be searched more thoroughly; all US aircraft at foreign airports had to be under observation at all times by at least one guard; and cleaners, baggage handlers and other people servicing aircraft had to be carefully screened and kept under close observation while they worked.

Although US airlines consider security a paramount issue, they are disturbed by the cost of the measures and the inconvenience they cause.

The Air Transport Association, the trade group for US airlines, said the its members spent about $500m a year on security before Lockerbie. It says the costs have risen sharply since then, but it has no accurate information about by how much.

Pan Am said yesterday it spent $25m in 1988 on security but the cost jumped to $60m in the year after Lockerbie. But the cost in lost business is probably higher. The US airline industry has been most upset about the FAA's requirements to install expensive, cumbersome and unreliable equipment that can detect plastic explosives and other types of bombs in baggage.

Called Thermal Neutron Analysis machines, the equipment is still in its testing stages. The President's Commission recommended yesterday that the FAA defer the TNA programme until better equipment can be devised.

A TNA machine installed by the FAA at Trans World Airlines terminal at New York's Kennedy airport was tested by the Presidential Commission.

For the first time in nearly a year of experimental use by the FAA the machine was tested with real explosives in bags passing through it. It detected the minimum quantity of explosives required by the FAA, but it failed repeatedly to detect the much smaller quantity thought to be responsible for Lockerbie.

The FAA had intended to order the installation of TNA machines worth $1m each at some 40 high-risk airports such as Kennedy and Miami, but mostly outside the US. The FAA was to pay for the first six and US airlines for the rest. Gatwick in the UK was to be a test site.

"We thought the TNA requirement was ridiculous," said a spokesman for the ATA. "Terrorists are not operating out of New York and Miami."

Report urges overhaul of security

By Lionel Barber in Washington

THE FEDERAL Aviation Administration and Pan Am yesterday faced sharp criticism in a Presidential Commission report on the Lockerbie bombing.

The report calls for an overhaul of US civil aviation security, declaring that the current system is "seriously flawed and has failed to provide the proper level of protection for the travelling public."

However, the report concludes that while the destruction of Pan Am Flight 103 may have been preventable, it could not state with certainty "that more rigid application of any particular procedure actually would have stopped the sabotage of the flight."

The commission said this would have to await the conclusion of the international criminal investigation into how the bomb was loaded on the plane, which exploded over the Scottish village of Lockerbie on December 21, 1988, killing 270 people.

In its report to President Bush, the commission offered more than 60 recommendations designed to improve security and prevent terrorist attacks, and shake up the Federal bureaucracy.

These include possible military strikes against "known terrorist enclaves"; delays in the purchase and installation of the new thermal neutron analysis machines (TNA) to detect plastic explosives on the ground that they say need improvement; and a State Department-sponsored ceremony to show compassion for the families whose relatives died in the mid-air sabotage.

While the State Department comes under fire for failing to respond in the aftermath of the disaster, it is the FAA, the Federal body responsible for air safety, which is singled out for special criticism.

The report describes the agency as "reactive" and accuses it of failing to enforce its own regulations prior to the Pan Am bombing and for nine months thereafter.

A key focus of the commission's investigation was the FAA regulation, in effect in December 1988, that unaccompanied baggage should be carried only if it was physically searched.

Months before, Pan Am had stopped reconciling or searching "interline bags" (luggage which is transferred from another airline), and had begun simply X-Raying the luggage.

When Pan Am 103 left Frankfurt – and again when it arrived at Heathrow – no one knew whether the aircraft was carrying an "interline bag". Records examined by the Commission "indicate the plane might have been carrying such a bag", though the report concedes that any Semtex plastic explosive would not have been reliably detected by X-Ray.

Pan Am told the commission that it received verbal permission from the FAA's Director of Aviation Security to X-Ray bags, but the FAA official, who has since been transferred, denies this.

The report also focuses on a host of "security violations and deficiencies" at Pan Am's Frankfurt station. More than five months after the Lockerbie disaster, in June 1989, an FAA inspector wrote: "Posture of (Pan Am) considered unsafe, all passengers flying out of Frankfurt on Pan Am are at great risk." After several meetings and a personnel shake-up at Frankfurt, "all security violations and deficiencies" were corrected.

"At the next FAA regular inspection, Pan Am at Frankfurt was rated a model station," the report adds.

The commission said US air carriers at foreign airports had strengthened security, but foreign governments had failed to apply matching standards for carriers under their jurisdiction. "As a result there are significant imbalances."

Other commission recommendations include: a new system of federal security managers at domestic airports run by the FAA; a research and development programme to produce new techniques and equipment to detect small amounts of plastic explosives (which it says the TNA machines cannot at present do); the elevation of the FAA security division to report directly to the FAA Administrator.

The commission calls for a national system for warning passengers of credible bomb threats which have been received, but shifts responsibility on to the Administration to come up with "a mechanism" to consider when and how to provide such notification.

"As a rule," the report continues, "such notification must be universal, to avoid any appearance of favoured treatment of certain individuals or groups."

Finally, the commission calls on the FAA to work with the FBI on a thorough assessment of the current and potential threat to domestic air transportation.

Congress should check the criminal record of all airport employees; and the US Parcel Service should change its definition of "seal against inspection mail" to include written materials and those parcels below a specific weight.

Remains of the cockpit Pan Am Flight 103, bombed over Lockerbie on December 21, 1988

Veil of secrecy surrounds the criminal inquiry

By James Buxton, Scottish Correspondent

WHATEVER progress is being made in the criminal investigation into the Lockerbie air disaster has been enveloped in secrecy for the past five months. The last time the investigators put their heads above the parapet was last December, just before the first anniversary of the tragedy.

On that occasion Lord Fraser of Carmyllie, the Lord Advocate – the chief law officer of Scotland – said that good progress was being made but that neither arrests nor criminal proceedings were "imminent. He announced that a fatal accident inquiry would be held into the disaster.

Yesterday Dumfries and Galloway police, who are leading the criminal investigation with help from other police forces and security organisations, would not make any comment on the state of the investigation.

The Scottish Office, meanwhile, had no news to give on plans for the fatal accident inquiry. It is thought that it will open before the end of the year but where, when and how it will be conducted are not being disclosed.

The criminal investigation has concentrated on members of the Popular Front for the Liberation of Palestine-General Command, a Palestinian splinter group which has had backing from Syria. A key figure is thought to be Hafez Dalkamoni, who is in prison in West Germany awaiting trial on charges of attacking US military installations.

But only one person has been formally named by police as a suspect in the murder of the 270 people who died at Lockerbie. He is Mohammed Abu Talb, 37, who is in prison in Sweden serving a life sentence for a bombing campaign in Denmark and The Netherlands.

Forensic work is thought to have established that the Semtex bomb which blew up the Pan Am Boeing-747 was placed in a Samsonite suitcase next to items of clothing manufactured in Malta and sold there in November 1988. Evidence, in the form of a landing card, suggests Abu Talb was probably in Malta at that time. He has denied any involvement in the bombing.

A fatal accident inquiry is held in Scotland in certain cases of death and can investigate not only the circumstances of a death but also what precautions might have been taken to avoid it, and any defects in systems which contributed to it. Lord Fraser said in December that it might be deferred if there were "developments that took us in the direction of a criminal prosecution".

The decision to hold a fatal accident inquiry continues to be criticised by relatives of the victims of Lockerbie. They say that because it could not sit *in camera* sensitive information might be withheld by the Government on public interest grounds, and it would be unlikely to take foreign evidence. The relatives' organisations want an independent inquiry held in camera which would examine, among other things, the workings of the Department of Transport's air security service.

Last week an out-of-court settlement was reached between Pan Am and 250 Lockerbie residents whose relatives were killed or who themselves suffered physical or emotional damage when the jet hit the town. Eleven people died on the ground.

The settlement is believed to be worth about £10m though details are being kept secret. Negotiations on a settlement for the 259 people who died in the aircraft are continuing.

Brazilians face a firmer squeeze on liquidity

By John Barham in São Paulo

THE BRAZILIAN Government is to further tighten its formidable squeeze on liquidity by cracking down hard on consumer credit and curtailing the banking system's liquid assets.

Late on Monday night Miss Zelia Cardoso de Mello, the Economy Minister, said: "We judged that it was important to adopt these decisions in order to proceed with the initial objectives of the stabilisation plan."

Monday's measures require lenders to gradually reduce the volume of consumer credit to 60 per cent of total loans outstanding on March 21.

The regulations also forbid interest-bearing current accounts, raise taxes on financial transactions and restrict the use of credit cards.

The Government has also published regulations detailing compulsory acquisition of $7bn-worth of government paper by financial institutions. The securities, called privatisation certificates are to be used in payment for state companies to be sold at privatisation auctions.

Business reaction was very negative to the move.

In São Paulo, the stock exchange's, Ibovespa index fell 10.5 per cent to 12,378 points on volume of only $13m. Furthermore a public opinion poll published in a São Paulo newspaper yesterday suggested that 54 per cent of the population gave support to the government's policies.

This is compared with 81 per cent shortly after their introduction on March 16.

In March, the Government froze 80 per cent of the money supply and introduced a round of price and tax increases followed by a month-long wages and price freeze.

However, since then, private companies have been able to release nearly all their frozen assets and local governments have increased spending heavily, which has boosted the money supply.

■ Federal police in Brazil yesterday launched a a widescale search for Mr Paulo Melzoni, one of the country's most prominent businessmen, who is suspected of tax evasion.

Mr Melzoni's Susa retail group, which has the rights to use the Sears trade mark in Brazil, is accused of evading taxes last year by issuing false invoices.

Police allegedly discovered false invoices amounting to about $50,000 at Susa's São Paulo headquarters and arrested three executives on charges of tax evasion.

Fall in US industrial production

By Anthony Harris in Washington

AN UNEXPECTED 0.4 per cent fall in real industrial production in April was reported by the Federal Reserve yesterday. This negates earlier figures suggesting a manufacturing recovery.

Production rose a revised 0.5 per cent in March (previously reported as 0.7 per cent), and 0.9 per cent in February.

The April fall was due to a further drop in output of motor vehicles and parts, but there was little offset. The Fed said that excluding motor vehicles and parts, industrial production was unchanged in April and has shown little movement since January, and the April index was only 0.1 per cent up on the same month in 1989.

Furthermore, pressure on capacity eased sharply. The Fed's index of capacity utilisation fell to 83 per cent, from 83.5 per cent in the previous month.

Bush launches Budget talks

By Peter Riddell, US Editor, in Washington

PRESIDENT George Bush yesterday formally opened negotiations with congressional leaders aimed at producing a multi-year deficit-reduction package amid warnings that no agreement is likely for several weeks or months.

Mr Bush personally presided over the first session in the White House Cabinet Room at which he set out general goals for reducing the deficit, but not specific proposals.

Both the Administration and Democratic leaders have been circling each other warily in the past few days, reluctant to put forward potentially unpopular proposals and take the blame for initiating a tax increase.

Mr Richard Darman, the Budget director, has set a target of an initial deficit reduction of roughly $50bn for fiscal 1991 starting this October. However, this assumes that the working capital costs of the savings and loan rescue are excluded from calculations of the Gramm-Rudman law which requires a reduction in the deficit to $64bn in 1991. Mr Robert Glauber, Treasury under secretary for domestic finance, said yesterday it was "pretty clear" that the core cost of the rescue (that is excluding working capital) would exceed the $50bn approved by Congress last year.

A new official estimate is now being prepared by the Treasury and may be publicly announced next Wednesday.

The main pressure for early agreement in the Budget talks is that otherwise across-the-board spending cuts, known as sequestration, will be imposed in October when the fiscal year starts. Since roughly two-thirds of Federal spending, notably social security, is exempt there could be very large cuts elsewhere – of 13 per cent in the Pentagon budget and of 18 per cent in domestic programmes if the total overshoot above the Gramm-Rudman target is $50bn.

However, Mr Marlin Fitzwater, the White House spokesman, has said "it'll go on probably weeks, if not months. It is not the kind of thing where anybody expects to run in, throw a proposal on the table, and vote on it, or anything like that."

Democratic leaders have approached the meeting with scepticism. Senator George Mitchell, the Senate Majority leader, said a great many Democrats believed that Mr Bush, having realised he must break his campaign pledge not to raise taxes, was now "looking for political cover".

Senator Bob Packwood, the senior Republican on the Senate finance committee, predicted yesterday that the talks might not produce an agreement until the end of the year. He said any deal would probably reduce the fiscal 1991 deficit by $50bn, with roughly half coming from spending cuts and a half from higher revenues and taxes.

"I think in December we'll come up with a one-year solution, not a five-year solution, and we will make it with nickels and dimes," he added.

Dinkins walks a racial tightrope

New York's black mayor is put on the spot, writes Martin Dickson

IT HARDLY looks like a racial *cause célèbre*: outside a small, nondescript grocery store in New York's Brooklyn district a group of about 30 black demonstrators – many of them women, and most young – stand haranguing anyone who enters the shop.

Across the front of the store, their backs to the pavement displays of fruit, a line of bored policemen stand guard in the warm afternoon sun. Nearby, a group of four black teenage girls perform a quick song-and-dance routine.

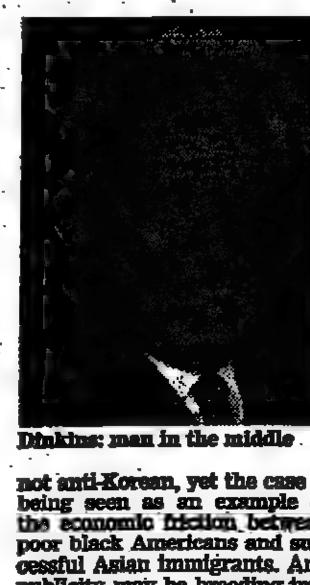
Yet this is the epicentre of one of two racial incidents which are obsessing New York – or at least its politicians and press – and creating a challenge for Mr David Dinkins, who last autumn was elected the city's first black mayor.

Indeed, Mr Dinkins felt it necessary last Friday to deliver an unusual speech at short notice to assembled dignitaries at City Hall appealing for racial unity, declaring he would do whatever was necessary to maintain public order and safety.

The incident at the foodstore seems trivial in itself, but it is indicative of New York's racial tension that it has blown up like this.

The shop is owned by Korean-Americans and located in the black Flatbush section of Brooklyn. Blacks have been mounting a four-month boycott of this and another Korean shop, alleging that staff assaulted a black woman customer.

The protesters say they are not anti-Korean, yet the case is being seen as an example of the economic friction between poor black Americans and successful Asian immigrants. And publicity may be breeding imitation: last weekend, a few streets from the food store, a group of Vietnamese were assaulted by a gang of black youths, although police are undecided about the motives behind this attack.



Dinkins: man in the middle

The second incident fuelling the tension is far more serious. One night last summer a 16-year-old black youth, Yusuf Hawkins, entered a predominantly white Italian-American neighbourhood of Brooklyn, called Bensonhurst, with three friends. They were pursued by a group of about 40 white youths and Yusuf was shot dead.

The murder was seized on at the time as an appalling example of deteriorating race relations and Mr Dinkins himself, then running for office, intimated that he could improve matters when he declared that "the tone and climate of this city does get set at City Hall".

Two youths have been standing trial for the murder and for the past few days juries have been agonising over their verdicts in a Brooklyn court house. Outside, black demonstrators, who have physically assaulted one of the defence lawyers, demand guilty verdicts.

"Civil Rights or Civil War" declared one of their banners, while black activist the Rev Al Sharpton, said that anything less than a murder verdict would be "lighting a match to the end of a powderkeg and telling us to burn the town down". Bensonhurst, an area of neatly kept blue-collar and lower-middle class terraced homes, is waiting nervously.

Mr Dinkins, who roundly condemned both Mr Sharpton and the press for giving prominence to his comments, is walking a tightrope. He came to office amid some optimism that he might ease the racial tensions which have been made worse in recent years by a drugs epidemic and an economic crisis and he has filled his administration with a carefully balanced cross section of the races.

But his manner of running the city, in a distinctly low-key style, has contrasted sharply with that of his predecessor, the flamboyant mayor Edward Koch. This prompted complaints – including one from a judge involved in the food store case – that he was too low key on racial matters, and should be making a stand.

Mr Koch turned the knife too by declaring that if he were still mayor he would have gone to the Korean grocery and bought up a week's supplies.

Mr Dinkins responded with a carefully balanced speech on Friday, carried live on television from a packed council chamber. He condemned the Korean boycott and declared himself ready to mediate in the dispute. He said the Yusuf Hawkins murder was a hateful crime but all of Bensonhurst did not commit it and he warned that "predictions of violence and anger tend to be self-fulfilling".

The speech won considerable praise from white politicians – even Mr Koch – and moderate black leaders, though one civil rights lawyer, Mr C Vernon Mason, declared that Mr Dinkins had "bashed black people .... He ain't got no African left in him."

But whether the mayor can allay the frictions is another matter. His attempts to mediate at the grocery store have been rebuffed, while the reaction of the crowd to the Bensonhurst verdict is anybody's guess.

"City on the Edge," screamed the headline in the popular Newsday tabloid newspaper, next to unsubtly juxtaposed pictures of the Manhattan skyline and a menacing torch flame. Two incidents hardly make a conflagration, but this summer could prove a delicate one for race relations in New York.

UK NEWS

Government asks if cull is answer to cow disease

By Bridget Bloom, Clay Harris and Alison Smith

GOVERNMENT scientific advisers were yesterday asked to look at the evidence on "mad cow disease" and to recommend whether calves born to cows suffering from the disorder should be slaughtered.

The move was announced by Mr John Gummer, Minister of Agriculture and Food, as several local education authorities removed some British beef products from school menus.

The National Federation of Meat Traders, an association of independent retail butchers, reported that its members had received a sudden surge of public inquiries about bovine spongiform encephalopathy (BSE), but no conclusive evidence yet that beef sales were suffering.

Mr Gummer said he had asked an expert committee under Dr David Tyrrell of the Medical Research Council to look at whether it would be a sensible to cull calves born to BSE-infected cows.

The National Consumer Council said it was not satisfied with Mr Gummer's stance, urging him to err on the side of caution. The Government-funded body and the National Farmers Union are trying to agree on a common policy.

Officials to draw up cuts during moratorium

Defence spending frozen as inflation hits budget

By Charles Leadbeater and David White

THE UK Defence Secretary, Mr Tom King, has ordered a freeze on procurement and civilian recruitment at the Ministry of Defence as officials draw up wide-ranging plans to cut spending.

The Ministry's spending plans have been thrown into turmoil by higher than expected inflation which has cut into the budget.

Sir Peter Levene, the Ministry's chief of defence procurement told defence related trade associations last Friday that no new contracts would be placed for the next five to six weeks to allow officials to draw up plans for short-term cuts of at least £350m this year.

Industry executives believe the final cost savings could be much higher, if inflation continues at current levels.

MoD officials said that top priority national and international programmes would not be affected, however spending on spares and replacement of non-essential equipment will be cut back after this six-week deferment on procurement.

Defence contractors had already been complaining about the MoD's contracts branch delaying making payments on programmes in recent months.

The bulk of the cuts are expected to be made in equipment purchases for which a budget of £8.3bn was set for the current financial year, out of a total defence provision of £21.3bn.

The cost cutting drive is likely to leave large defence contractors such as the General Electric Company largely unscathed but it could seriously affect many smaller suppliers.

The move will add to fears that industry's output will continue to sag during the year. Despite the long-term uncertainty over defence spending the defence related sectors were expected to escape the slower growth which is affecting consumer related sectors which have been hit by high interest rates.

The MoD's move comes as British Telecom, one of the largest private sector investors, is cutting orders from some suppliers to restrain the growth of its procurement budget.

Mr Brian Lowe, the director general of the Defence Manufacturers Association, one of the associations called to the meeting described the moratorium as "one more blow on the back of industry."

He added: "It is probably small beer compared with what is to follow."

The search for savings is separate from the wide ranging review of defence needs, being carried out by the MoD's central military staffs and its Office of Management and Budget, in the light of the political changes in eastern Europe. However the spending freeze is the clearest signal yet of the mounting pressures on defence spending.

Mr King told the House of Commons defence committee two weeks ago of the need to find £350m worth of savings to fit the 1990-91 defence plans within the budget targets.

The Ministry's provisional £22.4bn budget for the 1991-92 financial year is expected to face a sustained challenge in the forthcoming round of public expenditure negotiations.

The MoD has imposed spending freezes before, most notably in 1982, it exhausted its spending targets towards the end of the financial year. This is thought to be the first time the Ministry has imposed a freeze so early in the year.

Small airlines face falling demand and increased costs

Britannia braced for package tour slump

By David Churchill and Paul Abrahams

BRITANNIA AIRWAYS, the charter airline subsidiary of the Thomson Travel group, is today expected to announce a substantial re-structuring of the airline, including some redundancies and possibly sale of aircraft.

The move comes after the slump in package tour bookings this summer which has seen the market decline by 20 per cent overall. Thomson Holidays has already cut 1m holidays from its planned capacity for this summer, and yesterday announced that it was not planning to increase the number of holidays on sale next winter.

Britannia's staff and trade unions are due to be told of the changes later today. Trade sources suggest that job losses seem inevitable.

Mr Roger Burnell, managing director of Britannia, confirmed yesterday that staff meetings were being held today "to tell them the results of a six-month review of our operations."

However, Mr Burnell declined to give any further details.

The expected announcement provides an indication of the situation now facing the smaller British airlines. Britannia should have been protected from the worst of the downturn in the charter holiday market because of its association with Thomson Holidays.

Other airlines, without such links with holiday operators, are more exposed to falling demand and increasing costs. Three British airlines, British Island Airways, Paramount Airways and Novair, owned by the Rank Organisation, have recently ceased trading.

Britannia is the UK's largest charter airline with 29 per cent of the charter market, followed by Dan-Air with 17.3 per cent market share. Last year it transported some 7m Britons to overseas holiday destinations.

The company has already responded to the market slump by selling three of these older 737-200 series aircraft and not renewing the lease on a further aircraft.

Thomson, meanwhile, said it planned to offer for sale some 750,000 holidays next winter, about the same as it sold this year, and 150,000 fewer than it sold in the winter of 1988-89.

Prices to mainland Spain for next winter, however, are set to rise by between 13 and 14 per cent as a result of rising costs and changes in the rate of exchange between the Spanish peseta and Sterling.

BRITAIN IN BRIEF

Night news from Stock Exchange

The Stock Exchange is planning to broadcast information about major shareholdings in quoted companies throughout the night, in an attempt to avoid clogging up its company announcements system at the beginning of next month.

The exchange's problem stems from the change in the law from 31 May which will require investors to disclose stakes in quoted companies of over 3 per cent, compared with the current disclosure level of 5 per cent. This reduction, together with a reduction in the time allowed for disclosure from five to two days, is intended to make it easier for listed companies to identify stake-building by potential predators.

The new rule means that several thousand announcements of stakes of between 3 and 5 per cent will be reported to the exchange in the first few days of June. It expects to receive 2,500-3,000 announcements a day over a period of three days or so – ten times the usual number of company announcements published each day and 100 times the usual number of significant share stakes.

Sheffield makes its mark

Sheffield's ancient Company of Cutlers is this week launching the Sheffield mark, building on the city's longstanding right – unique among British cities – to use its own name as a trade mark.

The new mark has "Sheffield" printed across a stylised wheatsheaf – one of the city's heraldic symbols – with swords and crossed arrows.

The name of Sheffield has been legally a trade mark for metal goods made in the city since 1920.

Heathrow plan aborted

Proposals to extend Heathrow airport's operating hours and alleviate congestion were rejected by the Government for environmental reasons.

The measures would have increased capacity at the airport which last year handled 355,100 landings and take-offs. Using present operating procedures, the airport is nearly full.

Storehouse redundancies

The Storehouse group's BHS retail chain, formerly known as British Homes Stores, announced 900 redundancies among its managerial staff following an in-depth review of the store's trading performance.

The job losses were higher than expected although the company denied it was a direct result of the present down-turn in spending in the shops.

Food spending will decline

Food will not escape a general slowdown in consumer spending, despite the sector's reputation of being less vulnerable to economic cycles, according to a study published today.

Charterhouse, the merchant bank, expects virtually no growth in UK food spending this year compared with 1989, but predicts a healthy recovery in 1991 and 1992.

Workforce discontent

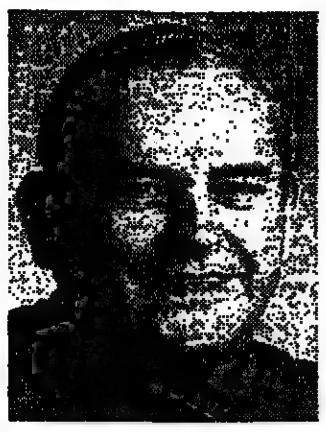
An overwhelming majority of employers in London's docklands, the new development in the heart of the city core, are dissatisfied with the qualifications of the local workforce, but very few are doing anything about it, according to a survey, commissioned by the London Docklands Development Corporation.

Mr Alan Benjamin, a board member of the LDDC, said that the survey points up the weaknesses of the government's policy of encouraging private industry to accept the main responsibility for training.

Ulster funeral for cardinal

Irish Premier Charles Haughey, President Dr Patrick Hillery, leading politicians and members of the judiciary, attended the funeral in Armagh Cathedral of Cardinal Tomas O Fiaich, the leader of Ireland's Catholics.

The 66-year-old cardinal, the Primate of All Ireland, died of a heart attack on Tuesday night while leading a pilgrimage to Lourdes.



Cardinal Tomas O Fiaich

Scottish housing needs solution

Mr Malcolm Rifkind, the Scottish Secretary, called on the private sector to help the government solve the problems of poor housing and high unemployment on Scotland's deprived housing estates.

Housing estates on the periphery of Scottish cities and big towns, present particularly acute problems of quality in housing and the level of social facilities.

The European sells well

The first issue of Mr Robert Maxwell's new pan-European weekly newspaper, The European, appears to have sold better than most analysts expected.

Preliminary trade estimates suggest that the newspaper sold around 650,000 out of a print run of 1.1m. Around 500,000 copies were sold in the UK and a further 150,000 were sold in Europe.

The price of burial

A "basic funeral" will no longer include embalming or the provision of a car for the next of kin. The changes follows a critical report on funerals last year by the Office of Fair Trading.

Sir Gordon Borrie, director general of the OFT, welcomed the revised code but expressed regret that funeral directors had not moved further to itemise charges made to customers.

Plastics group expands

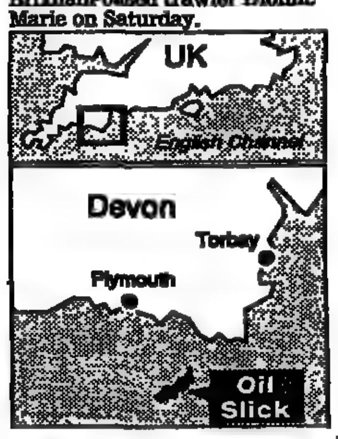
Brett Martin, the Ulster-based plastics manufacturer, announced an £11m expansion plan backed by the Industrial Development Board for Northern Ireland.

The company, one of Europe's leading manufacturers of plastic sheeting and drainage systems, plans to create 80 new jobs over the next five years, taking the workforce to over 300.

Oil slick threatens coast

Anti-pollution teams were on alert last night as winds blew an oil slick towards miles of holiday beaches off the South Devon coast.

The slick was caused after 1,000 tons of crude oil leaked from the 274,571-ton Liberian-registered supertanker Rosebay after she collided with the Brixham-based trawler Dionne Marie on Saturday.



Car makers face cartel claims

Motor industry faces backlash over fleet prices

By John Griffiths

PEUGEOT Talbot joined the latest round of UK price rises yesterday, amid signs of a mounting backlash by major fleet customers against the industry's pricing policies.

Fleet managers of several large companies, responding to soundings taken by the specialist fleet management publication, *Fleet News*, have accused the main UK-based manufacturers of operating a pricing cartel - a claim vigorously disputed by the manufacturers themselves.

Further fuel has been added to the controversy by the announcement last week that the Monopolies and Mergers Commission is to investigate consumer groups' allegations that new car prices in the UK are unjustifiably higher than elsewhere within Europe.

The increases announced by Peugeot Talbot yesterday, averaging 2.5 per cent, are the lowest of the increases announced by major manufacturers in the latest pricing round.

They compare with previously-announced rises of 3.9 per cent by Ford, the UK market leader; 3.8 per cent by Rover Group and 3.3 per cent by Vauxhall.

The price increases are the second this year. They have brought market leader Ford's to a cumulative average of 8.47 per cent, with most other manufacturers also over 8 per cent.

An August price increase is also an entrenched part of UK pricing patterns. However, a third increase is likely to meet stiff fleet opposition this year. Mr Freddie Aldous, chairman of TSB-owned Swan National, the vehicle distribution, leasing and rental group, has already called for fleet and private buyers to "vote with their feet" by buying their vehicles on the Continent after the single EC market becomes effective in 1993.

Ford and other leading manufacturers, however, are defending the price increases on the grounds of increase costs in the UK, with Ford in particular blaming a pay rise of more than 10 per cent.

British industry watches the cloud on the horizon

Charles Leadbeater looks at the dampening effects of the slowdown in demand in the UK economy

The prospect of an historic steel plant being rased to the ground had an eery echo of the early 1980s to it. The gathering slowdown in the British economy this week apparently claimed its most significant victim with the decision to close the Brymbo steelworks in Wrexham, with the loss of 1,125 jobs.

The plant, owned by United Engineering Steels, has been hit by rising costs for iron ore, electricity and wages, as the dampening effects of higher interest rates have worked their way through to suppliers from retailers and manufacturers.

About 30 per cent of UES' output goes to the car industry. Car sales have fallen in six of the last seven months. In April they fell by 12.7 per cent compared with a year earlier.

A further 31 per cent of UES' output goes to commercial vehicle and tractor makers. Commerical vehicle sales are 20 per cent down on last year.

Are more closures on the scale of Brymbo likely ?

Outright closures are only likely at extremely vulnerable plants. Brymbo has long been considered a marginal plant. It was vulnerable to a downturn because it had only limited investment in the last few years. Booming growth between 1987 and 1989 was like a life support machine.

Lower growth in 1990 may cast a shadow over other plants which were reprieved through higher growth. But most of industry is engaged in judicious pruning rather than savage cost cutting in the hope that as Autumn arrives so will the first signs of renewed growth in 1991.

The picture is extremely mixed, even in the steel industry. British Steel denies there is any doubt about the future of Ravenscraig - its Scottish plant which is considered most vulnerable.

Steel output, which rose in April to 384,000 tonnes a week, from 371,000 tonnes in March, was marginally up on April 1989.

A similar picture emerges from other industries.

Ford's profits slumped by 28 per cent, but Puegeot and Vauxhall have declared record results.

GKN, the engineering group, regarded as one of the strongest British manufacturing companies issued a dramatic profits warning but others such as Lucas, IMI and Turner and Newall have more modestly said they will be tightening their belts.

At the beginning of the year ICI warned it was cutting costs with the prospect of UK demand falling by about 10 per cent, yet this month it turned in profits well above City expectations.

A report by Cambridge econometrics published earlier this week forecast mechanical engineering would reap the gloomy rewards of under investment through the mid-1980s, with output growth falling to 3.5 per cent from 8.5 per cent.

But instrument engineering is set to grow by 4.7 per cent this year, up from 4 per cent in 1989 and after lower growth this year electronics output is expected to grow by 5.8 per cent next year and 7.6 per cent in 1992.

Mr Nigel Chubb, director of the Engineering Employers East Midlands Association summed up the prevailing mood among his member companies : "They are not making any dramatic moves yet. The crunch may come at the end of the year. They are hoping that by the autumn there will be first signs of a relaxation of interest rates and a lessening of pay pressure."

Industry is cautiously cutting costs without outright closures or large scale redundancies.

The slowdown is not reflected in figures for redundancies. Companies do not want to loose scarce skilled staff, which have been through expensive training programmes, only to attempt to recruit them again if growth picks up in 1991.

In the first quarter of last year there were about 2,000 more redundancies in the metal goods, engineering and vehicle industries than the 5,748 in the first three months of this year. There were about 3,000 redundancies in the motor industry and other transport equipment sectors in the first quarter last year, compared with just over 1,000 this year.

Rather than seek redundancies companies are freezing recruitment and using labour turnover to adjust manpower levels. The number of vacancies registered at JobCentres has fallen to about 214,000 a month from about 230,000 at the start of last year. The number of unfilled vcancies fell in March to 195,000 from about 224,000 last year.

The quiet cost cutting which is going on is reflected in patterns of working time. Overtime has fallen from the peak of 14.98m hours it reached in December 1988 to 12.56m this February. However close to 37 per cent of manufacturing workers are still working an average of 9.3 hours of overtime a week, which is comparable to the figures reached in 1985 to 1987.

Perhaps the most significant sign that a slowdown is starting to eat into industry is that short-time working is becoming more common. The average number of hours lost per month, through workers being laid off for the whole week, has risen from 85,000 in February 1988 to 454,000 this year.

About 293,000 hours were lost in February through workers being laid being laid off for part of the week, more than double the rate in 1988.

Nevertheless short–time working only affected 1.1 per cent of the manufacturing workforce.

This sort of cost cutting is a change in direction for industry, but as yet it merely marks a return to the levels of activity common in the mid-1980s. A sharp slowdown may still be on the horizon, but the horizon keeps receding.

JOB LOSSES IN UK MANUFACTURING*

	1987	1988	1989 Q1	Q2	Q3	Q4	1990 Q1
Metal goods	2,043	2,338	620	476	631	711	536
Mechanical engineering	16,127	8,163	1,938	2,066	1,852	2,477	2,033
Office machinery & data processing equipment	410	1,574	598	669	295	12	0
Electrical & electronic engineering	6,600	7,563	1,550	2,284	1,695	1,834	1,889
Motor vehicles	1,517	2,780	492	512	380	806	469
Other transport equipment	5,200	3,737	2,508	682	429	118	606
Instrument engineering	505	1,014	235	323	259	197	215
Total	32,602	26,579	7,869	7,014	5,541	6,155	5,748

*Confirmed redundancies Source: Employment Gazette

Labour will 'not raise' income tax

By Michael Cassell, Political Correspondent

THE overwhelming majority of wage-earners will not pay higher income tax to help finance Labour's programme of economic reconstruction, Mr Neil Kinnock, the party leader, pledged yesterday.

Mr Kinnock was speaking as his party's leadership approved a set of policies which will form the basis for Labour's next general election manifesto.

Although the 20,000-word document won a relatively easy passage through the party's home and international policy committee, Labour's continuing vulnerability over its relationship with the unions was highlighted with a short-lived defeat over the picketing issue.

A proposal to limit the numbers allowed on picket lines and to restrict secondary picketing to workplaces directly assisting businesses in dispute was defeated, leaving Labour committed only to backing a code of practice on picketing.

After an intervention by Mr Kinnock, who warned that the decision would be misinterpreted by the party's opponents as a sign of the party's approval of industrial disruption, the vote was overturned.

Mr Kinnock, speaking outside the meeting, which endorsed Labour's pro-European Community stance and its acceptance of the role of the market economy, said that Labour had no intention of raising personal taxes.

He said Labour acknowledged that the country had to meet the cost of its programme out of improving economic performance. Mr Kinnock said entry into the exchange rate mechanism of the EMS would provide the economy with a monetary "sheet-anchor".

The Labour leader also said that Labour would control the sort of recent surge in consumer demand by introducing credit control systems which worked well in other European countries.

Welsh plan delayed by sea barrage

By Anthony Moreton, Welsh Correspondent

THE REDEVELOPMENT of 2,700 acres of Cardiff's decaying docklands was thrown into doubt yesterday when a parliamentary select committee called for further studies on the effects a barrage would have on groundwater levels in the Welsh capital.

The committee threw the final decision back on the Secretary of State for Wales by recommending that legislation authorising the barrage should only go ahead after a further 15-month period of study and consultation if he feels all the economic, safety and technical criteria will be met.

The committee also suggested that all houses and commercial properties in Cardiff should enjoy the same protection under the law as those most closely involved in Cardiff Bay itself from the consequences of any rise in water levels.

Mr Geoffrey Inkin, chairman of Cardiff Bay Development Corporation, the body set up by the government four years ago to mastermind the redevelopment, accepted the amendments and undertakings sought by the select committee.

"I am sure we can live with them," he said. Mr Rhodri Morgan, Labour MP for Cardiff West, a leading critic of the proposed legislation, welcomed the committee report, saying it "totally vindicates our opposition."

He contended the recommendations effectively killed the likelihood of the barrage being built because the 15-month period of consideration brought the next stage right into the run up to a general election.

"It is unlikely a Conservative government would then want to go ahead with the £115m scheme and most unlikely a Labour government would ever sanction the scheme," he said.

Yorkshire Electricity moves into cable TV

By Maurice Samuelson

YORKSHIRE Electricity has become the first privatised electricity board to diversify into cable television.

In partnership with two US companies, it has secured the franchise for Doncaster and Rotherham and is seeking further licences in Sheffield, Huddersfield and Halifax.

Yorkshire Electricity applied as a member of South Yorkshire Cablevision, a consortium led by Masada Corporation, a private cable operator based in Alabama and Pactel (Pacific Telesis), a San Francisco telephone company with a $9.5bn turnover.

Over the next four years the group will spend some £50m on developing a cable network offering 28 television channels to nearly 200,000 homes in Doncaster and Rotherham.

Mr Roger Harrison, chairman of the consortium, said in London yesterday that Masada and Pactel were also seeking the cable television rights in Greater Manchester with possible involvement of the North West electricity distributor Norweb.

In the North East, Northern Electric is a participant in seeking the Wearside cable television franchise in partnership with another US cable operator, Telecable of Norfolk, Virginia.

Cable television is one of the activities with which privatised electricity utilities are hoping to increase their income and add sparkle to their shares when they go on sale for the first time in November.

They also hope to make more money from their unregulated activities, such as sales of appliances and contracting, and their special skills, such as large-scale vehicle fleet management.

Yorkshire Electricity yesterday said cable television was complementary to its mainstream business and an outlet for its expertise in telecommunications, cable laying and maintenance, project management and customer relations.

It is understood to have chosen Masada and Pactel as its partners after comparing it with several other US cable companies taking part in the current UK national licensing round.

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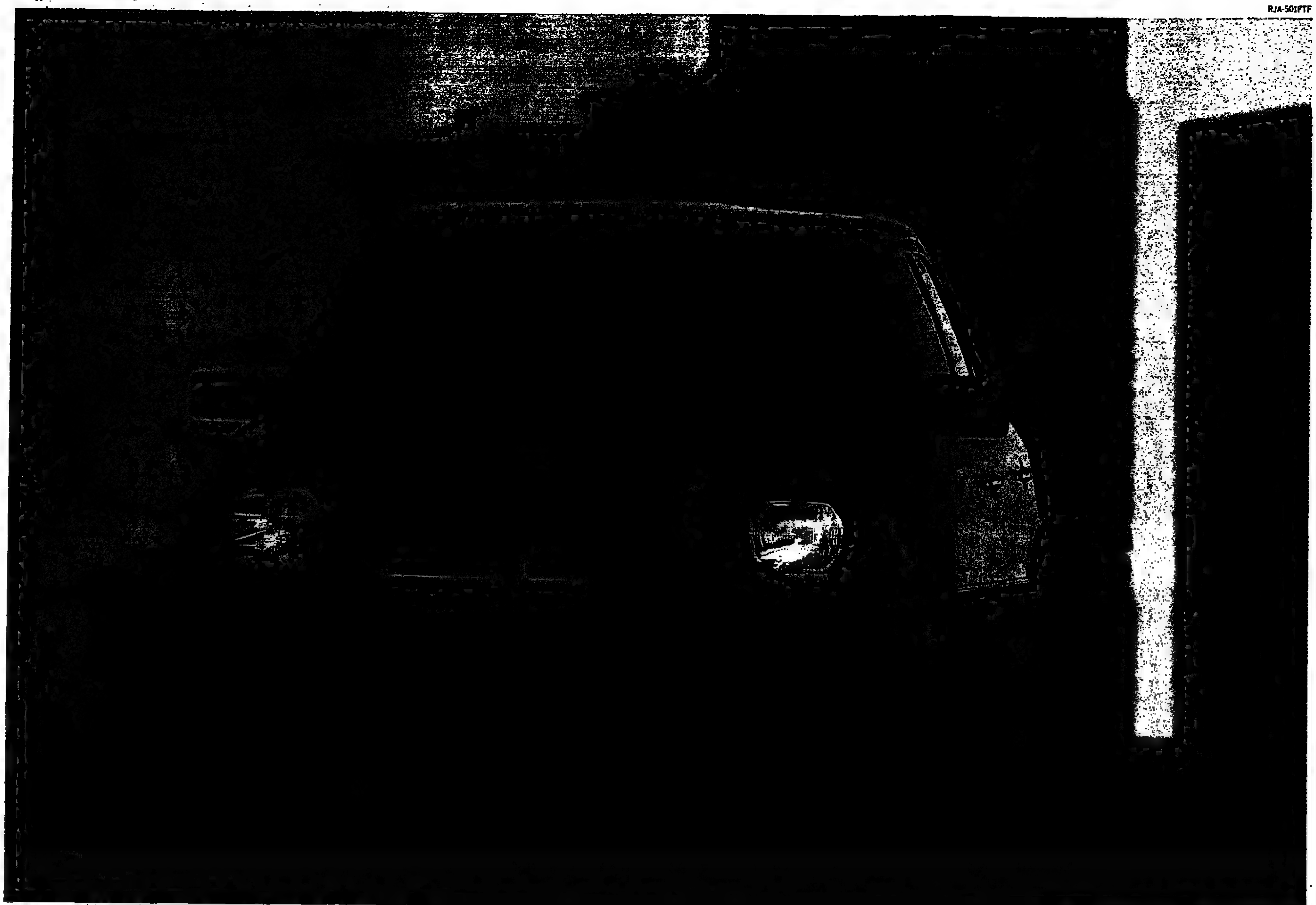

300E-24 acceleration: 0-62 mph in 7.5 seconds (manufacturer's figures).

The Mercedes-Benz 300E-24. More speed, less haste.

When you're on the road before dawn, and your 8.30 meeting is more miles from the warmth of your fondly remembered bed than you care to think about, the last thing you need is a car that makes demands on you.

More likely, you crave peace in which to gather your thoughts and the generous reserve of mile-shrinking power you'll find in the Mercedes-Benz 300E-24.

First, The Power

Few recent developments in the executive car class allow you to bite more hungrily into large inter-city mileages than the 300E-24's 3.0-litre, 231bhp, multi-valve, six-cylinder engine. A particularly important refinement of this four-valve-per-cylinder masterpiece is its variable valve timing, an automatic adjustment that allows the engine to deliver maximum torque over a very wide rev range.

A dramatically sporting powerplant – should you wish to explore it – but it's just as great an ally when you're more interested in arriving than enjoying the drive.

But there's more. Now the eager, press-on driver can have the sinews of his 300E-24 – or other cars in the series – further stiffened by the firmer Sportline handling and interior packages. Sportline uses uprated springs and 20% firmer shock absorbers; there's increased feel to the more direct steering, and the wheels and tyres are wider. The seats are designed to give greater lateral support.

Then, The Peace

Even at speed, wind noise generated by the 300E-24 is spectacularly low, but the peace of mind that's the special prerogative of Mercedes-Benz drivers, is also a tribute to less obvious virtues.

Such as controls and instruments that are so simply yet effectively designed and located that their efficient use becomes second nature. And when you step out of the 300E-24 after several hours, with no suspicion of stiffness, you'll know you've been carefully protected from fatigue by a seat that's as sympathetic to the human frame as Mercedes-Benz can make it.

So, if you've chosen the 300E-24 simply because you need to save time, Mercedes-Benz will be right there with you. But if you've also decided to fit Sportline suspension and seating, you'll forgive them if they suspect that merely shortening the journey is not always your first priority.

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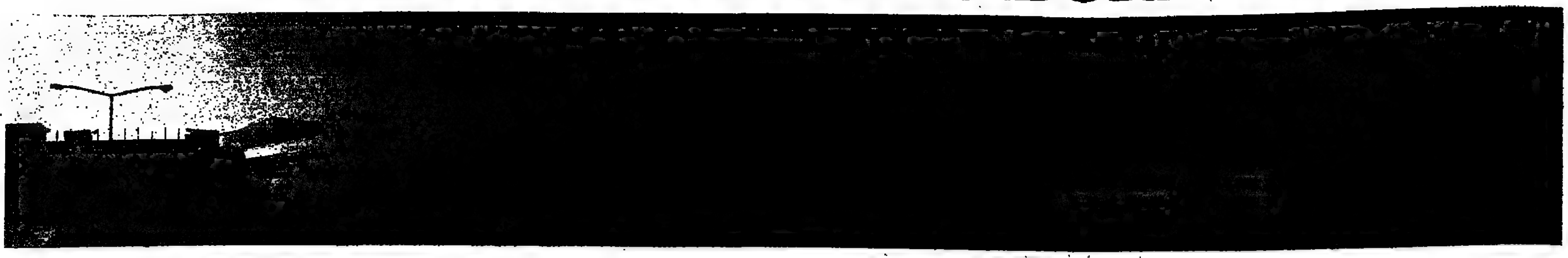
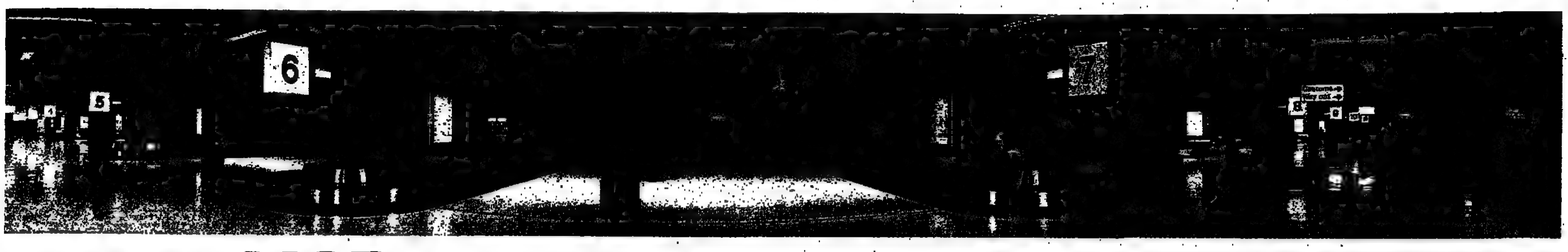


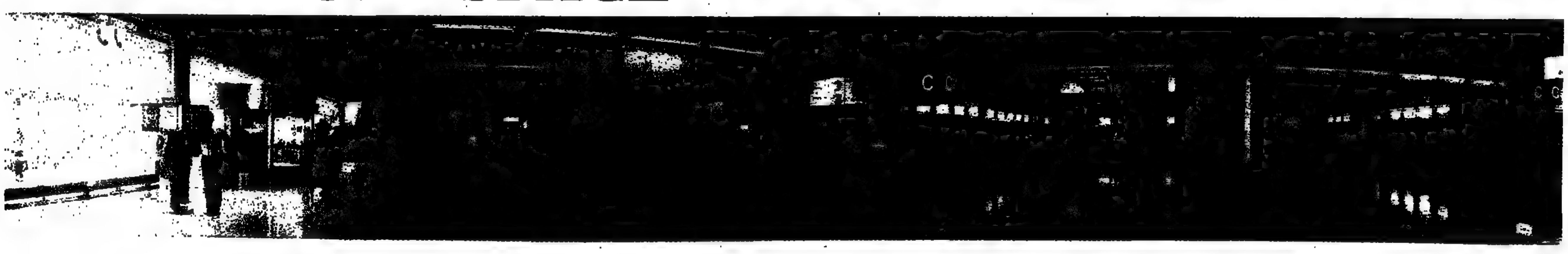
MORE STYLE

MORE CHECK-INS



MORE CHECK-OUTS

MORE SPACE



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FT LAW REPORTS

Mareva assets ruled able to stay in Switzerland safe from English court

DERBY & CO LTD v WELDON AND OTHERS
Court of Appeal (Lord Justice Dillon, Lord Justice Taylor and Lord Justice Staughton): May 10 1990

THE ENGLISH court has power, as a drastic and exceptional measure, to order the pre-trial transfer of Mareva assets from a country where its judgment would not be recognised and where the assets have been put to avoid enforcement, to another country where the judgment would be recognised; but it will decline to make such an order if it would be ineffective or, where the assets appear safe from dissipation, on the ground only that the plaintiffs would be unable to reach them without relitigating in the foreign country.

The Court of Appeal so held in interlocutory proceedings in an action by Derby & Co Ltd and others against Mr Anthony Henry David Weldon, Mr Ian Jay and nine other defendants.

The court (1) allowed in part an appeal by the plaintiffs from the Vice-Chancellor's refusal on January 9 1990 to direct that Mareva receivership assets be vested under the receiver's sole control outside Switzerland, by varying the order to direct that assets already outside Switzerland be vested under his sole control; (2) dismissed an appeal by defendants, Milco Corporation, CML Holdings SA and others, from the Vice-Chancellor's order, also of January 9, continuing injunctions granted by Mr Justice Vinelott to restrain the remission of receivership assets from the UK and other countries to Switzerland.

LORD JUSTICE DILLON said that in claims by the plaintiffs for deceit, breach of fiduciary duty and conspiracy to defraud, Mr Weldon and Mr Jay were served with proceedings in the UK. CML, a Luxembourg company, was properly served under the European Convention and had submitted to the jurisdiction of the English court.

Milco and the other defendants were served out of the jurisdiction under Order 11 of the Rules of the Supreme Court. They acknowledged service and had served defences and counterclaims, but protested the jurisdiction.

World-wide Mareva injunctions were made against the defendants, freezing their assets up to £100m. A receiver was appointed by the court in aid of the injunctions.

On November 24 1989 the receiver deposed that he had joint control of assets valued at £72m odd, held on joint account mainly with a Dr Louis Rohner, CML's Swiss lawyer who was now the 11th defendant, but in part with a Dr Peter Ritter, a Liechtenstein lawyer who was now the eighth defendant.

They included deposits of some £47m made outside Switzerland by Swiss banks on behalf of the joint account holders, to obtain higher interest rates.

The receivers were concerned that those external assets should not be returned to Switzerland. On November 24 1989 Mr Justice Vinelott granted *ex parte* injunctions restraining the removal of external assets from London, Brussels, Paris, Dusseldorf, Toronto, Luxembourg and New York. The injunctions had been reinforced by orders by local courts in those countries.

Though the Swiss courts would recognise and enforce any judgment which the plaintiffs might obtain against Mr Weldon and Mr Jay, and would probably, because of the European Convention, recognise and enforce a judgment against CML, they were unlikely to recognise or enforce a judgment against Milco or the other defendants who continued to protest the jurisdiction. The plaintiffs would have to relitigate in Swiss proceedings.

Article 271 of the Swiss Penal Code apparently made it an offence punishable with imprisonment for the receiver to do on Swiss territory any act in his capacity as receiver appointed by the English court. A transfer of assets outside Switzerland would not infringe article 271 if they continued to be held on joint account by the receiver and Dr Rohner.

Against that background, at the *inter partes* hearing on January 9 the Vice-Chancellor (1) refused to direct that the receivership assets be vested under the receiver's sole control outside Switzerland; and (2) continued until judgment or further order the injunction in respect of the external assets granted by Mr Justice Vinelott.

The plaintiffs now appealed from (1) Milco, CML and other defendants appealed from (2).

The Vice-Chancellor said that in an ordinary case he would have ordered remission to Switzerland, but held there were special circumstances which led him not to do so. He could see no escape from the conclusion that the court had been trifled with by the defendants. He referred to the transfer of assets to remove them from liability to enforcement. Also he referred to the defendants' conduct in dealing with the case as tricky and verging on dishonesty.

He said the English court should hesitate long before taking steps which required people to do things in foreign jurisdictions which might offend, let alone unlawful acts. He said "the correct approach is to seek co-operation of the foreign court."

That was similar to the view in *Ashtiani [1989] QB 888*, which favoured a limited territorial approach to the grant of Mareva injunctions.

More recent developments showed those views were wrong. The jurisdiction to grant a Mareva injunction depended not on territory but on the unlimited jurisdiction of the English court *in personam* against any person properly made party to pending UK proceedings (see *Derby v Weldon (Nos 3 & 4) [1989] 2 WLR 412,424 G to 425A, 428D*).

The Vice-Chancellor misdirected himself in his deference to the Swiss court. The present court was therefore free to exercise its own discretion.

The object of a Mareva injunction was that within the limits of its power no court should permit a defendant to take action designed to ensure that subsequent court orders were rendered less effective than would otherwise be the case (*Derby v Weldon (Nos 3 & 4)*).

There was no reason why that should not extend in principle and in an appropriate case, to ordering the transfer of assets to a jurisdiction in which the English judgment would be recognised, from one where it would not and where issues would have to be relitigated – if (which might not be entirely the present case) the only connection of the latter jurisdiction was that the moneys had been placed there to make them proof against enforcement.

In those circumstances, an order to return the external assets to Switzerland would be refused. The defendants' appeal was dismissed.

No order to transfer the Swiss assets out of Switzerland into the receiver's sole name could be effective without the voluntary concurrence of Dr Rohner or Dr Ritter. That was most unlikely to be forthcoming. In the circumstances, they should be left in Switzerland held on joint account. As to the external assets, the position was different. Local courts might be willing to make further orders in support of the UK order.

The plaintiffs' appeal was allowed. The defendants were ordered to procure that the external assets were held to the sole order of the receiver. The injunctions should continue to apply.

Lord Justice Staughton agreeing said that the court had power to order the transfer from one country to another of assets outside its physical jurisdiction, in the exercise of its jurisdiction *in personam* against defendants duly served with process under UK rules.

The question was whether the order should be made in the exercise of the court's discretion.

If it became common practice to transfer assets to the UK so that judgment could be more readily enforced, that would justifiably be regarded as unacceptable chauvinism by the international community.

It was very inconvenient for the plaintiffs if they had to fight the case over again in Switzerland. But that was not sufficient ground for ordering assets to be transferred pre-trial. It should not lead the English courts to adopt what was a drastic and wholly exceptional measure. It appeared that the assets in Switzerland were safe from dissipation under the present regime.

Lord Justice Taylor agreed with both judgments.

For the plaintiffs: Michael Lyndon-Stanford QC, Charles Purle QC and J Stephen Smith (Lovell White Durrant)
For Mr Weldon and Mr Jay: Nicholas Chambers QC and Mark Hapgood (Hopkins & Wood)
For Milco, CML and the other defendants: Nicholas Stewart QC and Terence Mowschenson (Allen & Overy)
For the receiver: Leslie Kosmin (Cameron Markby Hewitt)

Rachel Davies
Barrister

Meissen — likely to stay an exception

In its relative freedom, the porcelain company has long been untypical of East German industry. Now, Andrew Fisher explains, it is a candidate for renationalisation

Meissen, the high-class porcelain manufacturer, is an East German company with a difference. It is not just that its exquisite hand-painted products hardly seem to fit the image of a tightly planned Socialist economy in which consumers' tastes have come well down the list of priorities. In fact, the people who buy Meissen porcelain are mostly in the West and not in low-paid East Germany, where its customers have been state organisations.

More crucially for Meissen's past success and future prospects, it has direct experience of doing business in free market economies, it makes desirable products which command very high prices in the West, and it is not part of a lumbering kombinat (conglomerate). In all three ways, it is very unlike most East German manufacturers.

"We were like the one-eyed person in the country of the blind," says Hannes Walter, Meissen's 46-year-old managing director, describing its special status in the East German economy. "We were a showcase company."

For although Meissen was hobbled to some extent by the unwieldy state economic planning structure, it enjoyed a greater degree of freedom than most concerns. As a valuable foreign exchange earner, it was clearly less vulnerable to tampering than other East German operations.

Meissen, based in the pretty but dilapidated town of the same name near Dresden, has built up strong cultural associations in its 280-year history.

It has an excellent museum full of priceless porcelain objects and tableware — it possesses far more pieces than it can display at any one time — and served a useful purpose by representing to the outside world a more attractive facet of the East German economy than the grim, polluting smokestack industries which cover so much of the country's southern regions.

"Meissen is untypical," admits Walter. Paradoxically, now that the talk in East Germany is of freeing industry from central controls and bringing back the entrepreneur, Meissen's future is likely to remain outside the private sector. But instead of being owned from East Berlin, Walter expects it to return to its original proprietor — the state of Saxony.

The Communists abolished the states, but regional feelings are strong now that the Stalinist era is over and free elections have taken place. This is especially so in Saxony, of which Dresden would again become the capital when, as expected, the East German states are revived.

Meissen was founded during the reign of August the Strong over Saxony from 1694 to 1733 and stamped a powerful impression on the state's cultural, political, and economic life. Meissen, based in the town's Leninstrasse, does share one thing with other East German companies. It has a cumbersome name: VEB Staatliche Porzellan-Manufaktur Meissen. The ubiquitous initials VEB stand for Volkseigener Betrieb (company owned by the people) and preface the names of many East German corporations. They will certainly go once the structure of East German industry ceases to reflect the heavy centralist influence that extended from Berlin.

With around 1,800 employees and 200 apprentices, Meissen is an important part of the town's economy. But while jobs have been provided, the town has hardly benefited. Its pretty houses are crumbling and its amenities are poor.

Like other companies, Meissen sent its earnings straight to Berlin each month. None of the money flowed into the local community, a complaint voiced by many towns about the way in which the capital was favoured against the rest of the country.

Meissen earns around 200m East Marks a year, of which it sends 150m Marks to the state. It keeps 50m Marks for its own running expenses; it has received between 5m and 10m Marks annually for investment. Turnover comprises around DM50m (plus 10m East Marks from sales in non-western markets), which translates into around 230m East Marks at the exchange rate of 4.4 East Marks to DM1 that has been used by the country for its foreign trade calculations.

Labour accounts for the bulk of Meissen's costs. Because East German companies have little control over their own finances, which are handled by Ministries and the State Bank in East Berlin, figures are of limited value. There are no clear profit and loss accounts or balance sheet statements as with western companies. After monetary union takes place this summer, Meissen's figures will look very different. Its profit will be lower, since this will be expressed in Deutsche Marks, and it will have to earn the DM10m a year that Walter thinks is needed for investment.

Not that there is much that can be changed on the production side. The fine porcelain is made by traditional methods and painting is done by hand. A vase can take three weeks to paint and a plate two days.

Meissen employs 800 painters, who earn around 1,200 East Marks a month, though a top employee can earn 2,000 Marks, high by East German standards. The company has specialist painters for birds, flowers, and other designs. The best artists work from faded black and white reproductions of old paintings to produce complete landscapes, sea views, or idyllic scenes on plates or vases.

Like other companies, Meissen has lost workers to the West as the borders opened. The most prominent departure came before this, however, when Reinhard Fichte, the former managing director, skipped the country in February last year. In more recent months, around 100 people, mostly young workers, have left. But Walter says the company used to lose around 50 people a year simply because the town could not provide enough decent housing.

The company is trying to help change this, raising money specifically for the community by putting up its museum fees, though they are still low, and selling a special package of its artists' drawings and a small porcelain brick with the Meissen coat of arms.

Once the company faces the full rigours of the free market, it will be subject to sharp upward cost pressures. "Our workers here expect, quite rightly, to earn more than those in other firms. Wage levels will clearly rise."

Under the terms of currency union, wages will be converted at DM1 for 1 East Mark, while corporate debts will be converted on a one-for-two basis. Walter reckons Meissen, unlike many concerns, can survive with these rates.

Under the old system, the government laid down how many directors Meissen should have but now the management board has been streamlined from nine to five. The need for constant negotiation and contact with the former Ministry for Glass and Porcelain tied up more staff than the company really needed. Like other concerns, Meissen had to deliver a battery of statistics to East Berlin each month. Now, it aims to shed around 100 spare jobs.

The government kept a close eye on whether companies reached the goals laid down in the yearly plan. "Every firm had to fight to see that its targets were not set too high," says Walter. Berlin's basic calculation was that it cost 4.4 East Marks to produce DM1 of revenues from the sale of East German goods in the West.

Meissen did better than this with a 1:1 ratio. Some companies were much worse, needing to spend maybe 10 East Marks to yield DM1. But, says Walter, if a less efficient company exceeded its target, it was regarded as having done well. If an efficient one slipped, it came under pressure from Berlin.

In future, the pressures will come from the market. Walter says Meissen's prices could rise by around 10 per cent a year for the next three years.

It began a discreet advertising campaign in West Germany last autumn, the first in its history. Since Meissen's porcelain is in high demand — the average delivery time is two years — increased prices should not meet too much resistance.

The route to the free market economy will be tough. "It is an illusion to expect things to improve overnight. People will need courage and motivation; they must not simply wait for help from outside."

"Meissen makes desirable products which command very high prices in the West"

Executive pay

Why performance should be the most crucial element

By Simon Holberton

Listeners to the BBC radio programme Any Questions will have noticed a recurring theme over the past few weeks. No, it is not the Poll Tax, soccer hooliganism, or whether or not Michael Heseltine would make a better leader of the Tory party than Margaret Thatcher.

The subject that has been exercising the questioners of some of Britain's opinion formers is executive pay. Is it right that so and so should be paid so much when child benefit has been frozen for two years?

The Conservative will answer yes, in some circumstances; the Labour representative no, in all circumstances; and, the two "independents" express horror and observe with weariness the encroachment of materialism in this sceptred isle.

In the US public reaction is usually expressed in terms of the excessiveness of executive pay increases. Having lost out to the Japanese car makers, how can Lee Iacocca and his confrères in Detroit pay themselves so much?

A study of executive remuneration in the latest issue of the Harvard Business Review* challenges the view that executives in the US are paid too much — in fact, it asserts they are often paid too little — and proposes a different method for evaluating executive pay. The study finds that:

● pay levels for chief executive officers (CEOs) in the US are lower today than they were 50 years ago. In constant 1988 dollars, the average salary and bonus for CEOs over the period 1934 to 1938 was $882,000. For the period 1982 to 1988 the average salary and bonus was $843,000;

● CEO ownership of corporate America (as measured by CEO direct ownership of stock as a percentage of total shares outstanding) was 10 times greater in the 1930s than it was in the 1980s.

● adjusting CEO pay for inflation and comparing its growth with pay for hourly and salaried employees shows a similar pattern although fewer CEOs took a real pay cut;

● and, for every $1,000 rise in the market value of America's 250 largest companies the rise in CEO compensation was just $2.59, over two years.

The last item is what the authors of the study, Michael Jensen and Kevin Murphy, of Harvard and Rochester universities respectively, assert to be the most crucial element in a rational system for rewarding executives.

They argue that remuneration committees of US companies should give more attention to paying for performance. They define performance as the increase in shareholder value as measured by the growth in market capitalisation.

Using that yardstick, they have analysed the pay of CEOs of 430 US companies for which there is comprehensive data for seven years during the 1980s.

James Cotting's wealth rises by $1.41 for every $1,000 fall in shareholder value

They looked at the total effects over two years on CEOs' wealth of: the change in pay-related wealth (salary and bonus, the present value of that change in pay assuming a discounted 3 per cent real interest to retirement, and the effect of dismissal on wealth); and, the change in the value of shares owned. These values are then stated in relation to a $1,000 gain in market capitalisation.

Jensen and Murphy's analysis produced some interesting results. The grand old man of American investment, Warren Buffett, the chief executive of Berkshire Industries, tops the list of the "best" paid. For every $1,000 of growth in Berkshire's market capitalisation, Buffett's wealth rises by $446.88, consisting of a 6 cents rise in pay-related wealth and a $446.77 rise in the value of his stake in Berkshire.

At the other end of the scale is James Cotting. He is CEO at Navistar International (formerly International Harvester). His wealth rises by $1.41 for every $1,000 fall in shareholder value. His pay-related wealth rises by $1.61 and this is slightly offset by a 20 per cent fall in the value of the stock he owns in Navistar.

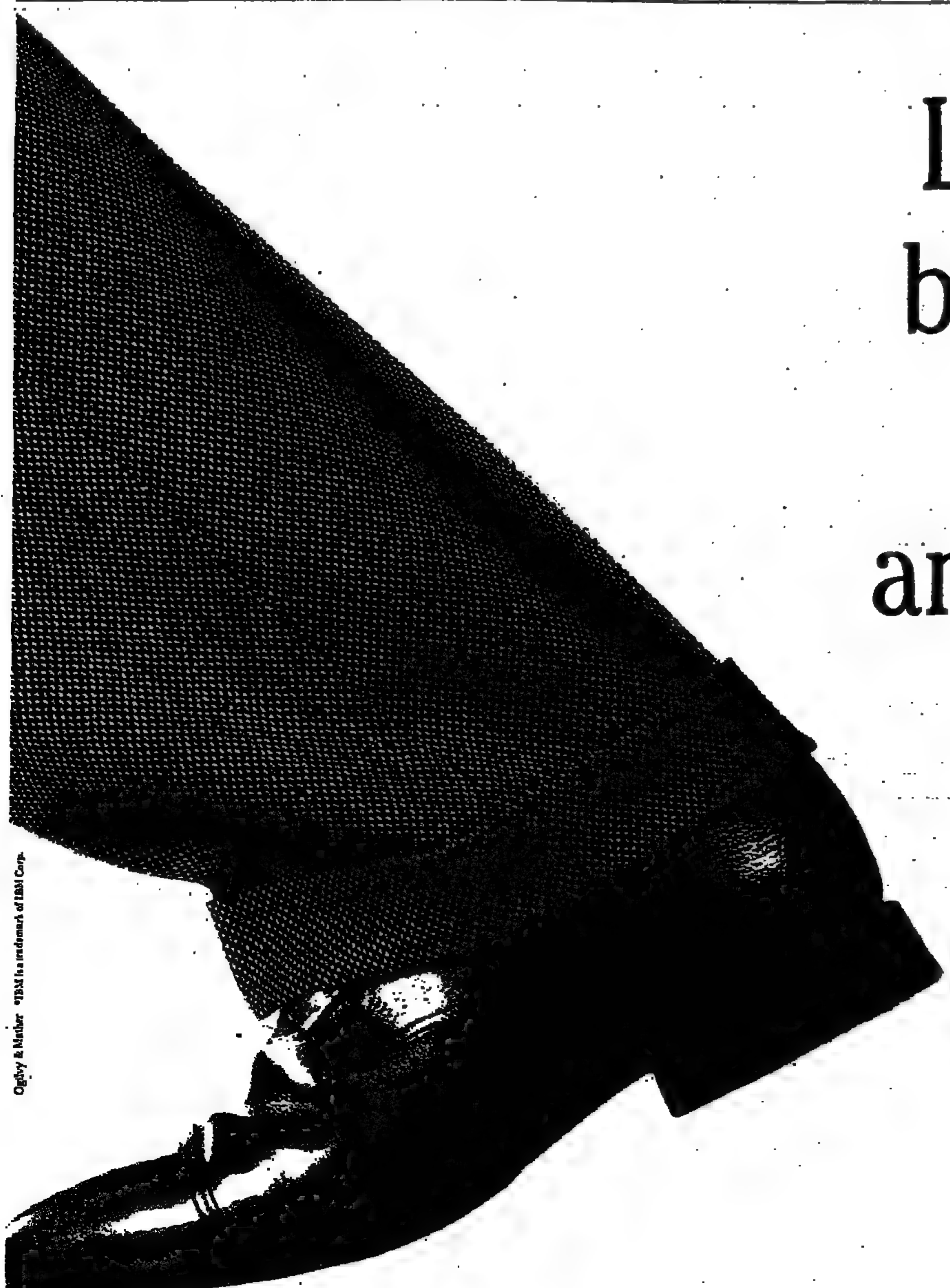
Jensen and Murphy claim that the best way to get performance from a CEO is to make him or her a significant shareholder in the company. A Buffett-like shareholding (about 45 per cent) is not realistic for most companies, but neither is the .037 per cent median stock ownership among CEOs of America's largest 120 companies sufficient, they say.

They criticise boards of directors for not standing up to public opinion in the US and defend their right to pay CEOs a lot of money if performance warrants it. They take on critics who want both performance-related pay and "also want to limit compensation to arbitrary amounts or some fuzzy sense of 'what's fair'."

Jensen and Murphy claim that imposing a ceiling on salaries inevitably means creating a floor for poor performers. "When mediocre outfielders earn millions of dollars a year, and New York law partners earn about the same, influential critics who begrudge comparable salaries to the men and women running billion-dollar enterprises help guarantee that these companies will attract mediocre leaders who turn in mediocre performances."

The authors say that boards should require CEOs to become significant shareholders in the companies they manage. Salaries, bonuses and stock options should be structured so as to provide big rewards for superior performance and correspondingly large penalties for poor performance. Moreover, poor performance should carry with it the threat of dismissal.

**CEO Incentives — It's not how much you pay, but how, by Michael C Jensen and Kevin L Murphy, Harvard Business Review, May-June 1990. (Reprint No.: 90308, available from: Dynamic Graphics International, PO Box 25, 3950 AA Maan, The Netherlands).*



TECHNOLOGY

David Fishlock reports on a project which may render obsolete chemical propellants for artillery

Ordnance that is riding on rails

A new kind of gun that unleashes a bolt of electricity to drive its projectile is to be tested in Scotland in an Anglo-US defence research collaboration. British defence scientists believe it could be the forerunner of a family of hypervelocity weapons which are free from the limitations of explosives.

The scheme is to assemble an experimental electro-magnetic gun at the British Army's artillery range at Kirkcudbright, on the Firth of Forth, for trial in 1993. The cost, to be shared by the Ministry of Defence and US Defense Advanced Research Projects Agency (DARPA) – a research arm of the Pentagon – is put at tens of millions of pounds.

For Britain, the project is part of a research programme aimed at understanding the physics of a potential weapon system that may offer important advantages over conventional ordnance, including greater armour-piercing power and no revealing cloud of smoke. Companies participating in the project include Rolls-Royce, Royal Ordnance Factories, Northern Engineering Industries, Hunting and GEC. Cambridge and Bath universities are also taking part.

Managing the research is the gun systems group of the Royal Armaments Research and Development Establishment at Fort Halstead in Kent, headed by Bill Clifford.

The task is to assemble at Kirkcudbright an electro-magnetic gun with a muzzle velocity at least twice that of a modern tank gun, with a range of 2 km, for trials at full power by 1993. It will have a repetition rate of several shots per day.

Behind this project lies a widespread belief that after nearly 700 years of development the conventional gun with a projectile driven by a chemical explosive is close to its limits. Despite recent publicity for so-called "superguns," the tank gun represents the peak of gun development in terms of muzzle energy and velocity achieved with a compact, lightweight weapon capable of remarkable accuracy. One Fort Halstead scientist likens a tank at 2 km range to a pinhead held at arm's length. And that target is probably moving.

The pressures developed by chemical explosives in a tank gun are equivalent to those in water at a depth of 110 km. They can generate a muzzle velocity for a projectile of about 2 km per second. Super-guns with very long barrels may achieve extra range but not higher muzzle velocity, which is still limited by the rate at which gas can expand. In theory, an electro-magnetic gun may have a muzzle velocity as high as 10 km per second, five times as great as explosives can manage.

New kinds of armour – composite, reactive, electric – could be capable of resisting explosion-driven weapons within a decade or two, the gun specialists say. They see the hypervelocity electro-magnetic (EM) gun as a way of making these novel armours vulnerable again.

At least three kinds of EM gun are being explored worldwide. The simplest is the railgun, in which the metal projectile is propelled along a pair of electrically conducting rails by a large pulse of direct current. This bolt of electricity travels up one rail, through an armature, and back down the other rail.

Another version is the linear induction accelerator, which consists of a succession of coils forming the "barrel," which induce magnetic fields on the surface of the projectile – something to push against. Electricity is switched from coil to coil, accelerating the projectile. Sandia Laboratories in New Mexico has recently publicised its progress with the "coil gun" as a potential new way of launching small satellites into space.

A third concept is the electro-thermal gun which employs an electrically-generated plasma as a particularly hot cloud of gas, at a temperature of perhaps 20,000-30,000 degrees C, to propel conventional shells at higher performance. Which of these EM concepts looks most promising depends on the prospective application.

A $4m study by DARPA has concluded that there is no "best buy" among these three concepts – too much depends on what the customer wants from EM propulsion.

Fort Halstead, engaged in studies of EM guns since 1981, has concluded that the rail gun offers the best promise of replacing a conventional tank gun. All three concepts must still surmount formidable problems, but the railgun has been making fast progress in miniaturising key components such as power supply in the past two years.

The rail gun requires rails constrained by a very stiff structure, made to close tolerances. For efficiency, it has a square rather than a round bore. It also needs a fast-acting switch to dump its energy once it has propelled its projectile.

As a tank gun, it will need to handle currents of 4m to 5m amperes, and peak power levels of 3,000MW to 5,000MW. This may sound daunting but, in fact, it is the power level already produced by chemical propellants. The electric power would be needed in brief pulses lasting only a few micro-seconds.

The rail gun has three basic components: a barrel, a pulsed power supply and a projectile. For the Kirkcudbright gun, the US is providing the barrels, Britain is developing the pulsed power supply and both partners will work on projectiles.

The Fort Halstead scientists have already demonstrated some impressive rail gun technology. They claim a world record for firing a projectile from a rail gun to a distance of 100 metres. This has been achieved by Remgun 3, their current experimental facility, in a concrete range at the research establishment.

Remgun 3 is driven by a homopolar generator built by International Research and Development in Newcastle (part of NEI, a Rolls-Royce company). This six-tonne machine (designed 26 years ago for a quite different purpose) can deliver up to 750,000 amperes at 54 volts, in pulses that peak at about 40MW.

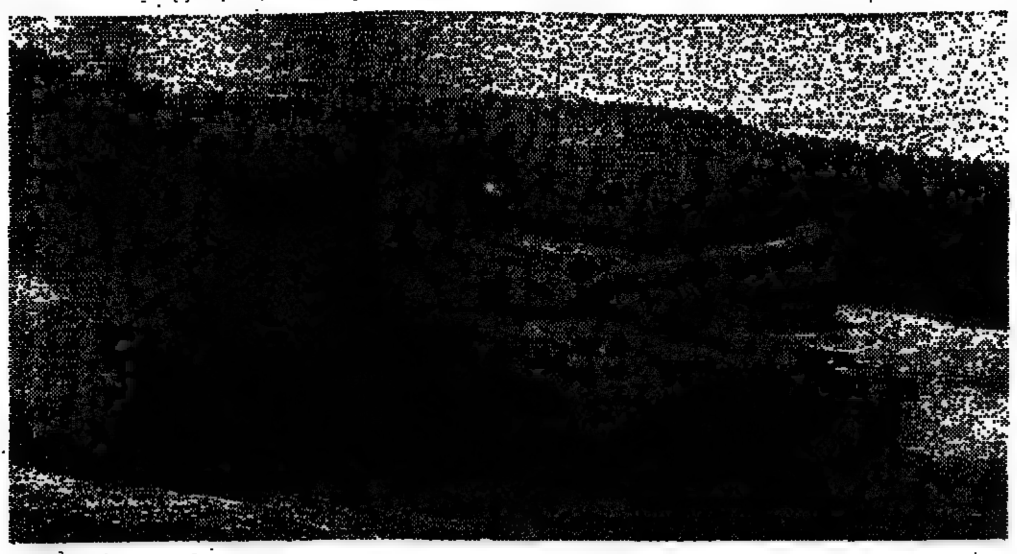
Switching such a colossal current quickly in a highly inductive load like a rail gun is a particularly difficult challenge. They scientists solved it by brute force – they detonate a strip of explosive cutting tape laid across a copper bar.

Latest ideas from the team's industrial collaborators suggest such a pulsed power system could be miniaturised very impressively. For example, Rolls-Royce has proposed a dual-purpose gas turbine that could be switched from tank propulsion to delivering three times its normal output, in pulses, to drive a homopolar generator no bigger than a coffee table.

"Rail guns are good at flinging small things fast," one scientist says. Just what it might fling, and how fast, is still being debated. Such a gun may be capable of imparting a muzzle velocity of 5-10 km per second, compared with 4-5 km per second for the current tank gun. But what excites the gun designer is not velocity so much as what he might do with the extra energy of a hypervelocity weapon by redesigning the projectile.

One scientist likens the problem to that of a batsman selecting his stroke to extract maximum advantage from the playing. The current anti-tank projectile consists of a slender heavy metal dart of much smaller diameter than the gun barrel, surrounded by a sabot to fill out the barrel, which falls away during the flight. The "flight vehicle" for an EM gun will be quite different from today's anti-tank munitions in order to get the most efficient coupling of energy into the target it is trying to disrupt, and also to prevent it from simply vaporising through friction with air en route.

Fort Halstead scientists stress that the Kirkcudbright facility will be a physics demonstration, not a weapons system. If successful, it could evolve into a tank gun, or a stationary anti-tank weapon that is relatively easily concealed, or possibly an air defence system. One forecast is that it will be tried in a tank before the end of the decade.



A type of gun built on new principles could be tried in a tank before the end of the 1990s

Data processing budgets come under the axe

Alan Cane considers why business is retrenching in its information technology operations

The costs and dangers inherent in information technology have become serious sources of concern for the leaders of British industry. Sir Denys Henderson, chairman of ICI, summed up the position by saying: "I worry enormously, both about the amount we spend on IT and the increasing difficulty of justifying that expense in terms of the bottom line."

His comment on IT costs appears in the annual Information Technology Review published by management consultants Price Waterhouse.* The review gives new evidence of the risks involved in data processing systems. About two thirds of UK companies have suffered financial loss as a result of computer security breaches; 7 per cent admit the losses were crippling.

Over the past five years, UK companies have responded to these concerns by:

- Clamping down on data processing expenditure.
- Appointing IT directors to take charge of computing developments.
- Substantially increasing the resources allocated to computer security.

The Price Waterhouse review, now in its 11th year, is based on information from a panel of 750 data processing (DP) managers, sampled quarterly.

It shows that the amount companies spent on computer equipment and services fell between 1988 and 1989 for only the second time since the review began, despite the panel prediction that there would be a 9 per cent increase.

The average IT budget in 1989, taken across a sample of all companies with a DP department of five staff or more was £2.73m, compared with £2.76m the previous year. Adjusted for inflation, the fall was 5.9 per cent.

Data processing costs have traditionally risen by 10 per cent or more annually as large companies have sought extra efficiency through automation. ICL, the UK's only mainframe manufacturer, for example, says its large customers' need for computer power is rising 40 per cent a year.

In recent years, there has been in addition a drive to extend the use of computers to distribution, marketing and sales – using IT for competitive advantage.

Around 1985, senior managers decided to call a halt to the spiralling cost of IT investments. Since then DP budgets have tended to swing between growth and retrenchment.

It has chiefly been data processing departments' budgets that have been held down, however. Users – that is executives and managers using personal computers – have continued to increase their spending at almost 9 per cent a year. By 1990, users are likely to account for a quarter of all IT expenditure.

While their "customers" have had been able to spend freely, however, data centres have found themselves asked to do more work with fewer resources. The result has been a substantial growth in "outsourcing;" the proportion of the average DP department's systems development budget which is given to outside contractors rose from 16 per cent in 1985 to 28 per cent today: "Nine per cent of companies," the review says, "stated they were implementing a policy of 'no permanent systems development staff.'"

It has led to a large increase in the number of contract programmers who, working through agencies, can expect to double their in-house salary. Over half of these contract programmers expect to continue working freelance for more than 10 years and 43 per cent expected to stay freelance for life.

The review indicates the extent to which management has become concerned about the risks inherent in the computer systems on which their business depends.

Five years ago, a quarter of all the companies covered in the survey were spending nothing on computer security. Now only 4 per cent are still tempting fate and the prediction from the panel was that no company will be able to neglect spending on security within five years.

Some 20 per cent of the companies surveyed had suffered a direct but minor loss as a result of a security failure, while a further 10 per cent had suffered a consequential loss – loss of a customer's business, for example, because of irritation caused by a malfunctioning computer.

About 35 per cent of companies had suffered from both. Where the loss was significant or crippling, comparable figures were three per cent direct, 1 per cent consequential and 3 per cent both, a total of 7 per cent.

Breaches of security do not always imply malicious or fraudulent behaviour. The review shows that the principal problems were errors – mistakes by data entry clerks and operators – and system failures including breakdowns in hardware and software together with natural hazards.

Some 13 per cent of cases were the result of industrial action while theft and fraud each accounted for 10 per cent of the losses reported.

How were the breaches discovered? Forty one per cent came to light as a result of control systems and security checks. Thirty two per cent were discovered by subsequent audit, while 27 per cent were discovered by accident.

Professor Kit Grindley of Price Waterhouse warns that effective security brings its own problems: "One of the paradoxes of computing is that while we are trying to make our systems more and more amenable to the users, less of a mystery and easier to use, the security zealots are seeking to make it more impenetrable."

The principal cause of security risk, after all, is the growing trend to connect computer systems together to provide electronic data interchange and other capabilities.

*Information Technology Review 1990/91; available from Price Waterhouse 32 London Bridge Street London SE1 9SY.

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TELEVISION

The unceasing search for wider horizons

Christopher Dunkley salutes a series which has never lost its sense of adventure

There are precious few television programmes which you can turn to week after week with the expectation that, as often as not, they will induce in you the same sort of excitement and awe engendered by the best school teachers; that sense of excitement which makes you want to laugh with pleasure at your own human cleverness, your ability to comprehend what is being explained to you. It comes usually with the glimmering realisation that you have suddenly begun to understand some momentous phenomenon: what Darwin was driving at, the majestic humanity of Shakespeare's greater plays, or the awful significance of the equation $E=mc^2$. *Horizon* is such a programme, so let us now praise *Horizon*.

The series is one of the longest running on BBC2. It started 26 years ago this month, just two weeks after the channel opened, beginning as a monthly magazine with the object of "providing a platform from which some of the world's greatest scientists and philosophers can communicate their curiosity, observations and reflections, and infuse into common knowledge their changing views of the universe." Fairly quickly it became fortnightly, then, in 1968, a weekly documentary on a single subject as it has remained ever since – and, happily, that original intention has not changed at all, so far as one can see.

Gratifyingly, as the years have passed the audience has grown. When records began in 1966 the average audience was 120,000. By 1976 it had risen to just over 2m, and this year, so far, the average is just under 3m. Cynics might suggest that the increase has occurred because the programme has become less demanding and gone for more popular subjects, but memory and present evidence on screen do not bear this out.

Production styles at *Horizon* have always varied admirably: an entire school of documentary drama grew out of such programmes as "Billion Dollar Bubble," the splendidly entertaining account of computer fraud, written by Tom Clarke and directed by Brian Gibson (who, like several other *Horizon* directors, went on to Hollywood). That highly watchable and scarcely over-demanding programme appeared in 1976 which hardly seems to indicate a decline into flabby populism.

Admittedly there are now far fewer professors with white coats, rimless glasses, central European accents and white rats than there used to be; these days the typical interviewee is an American with a beard. (Given the general incidence of beards in the US, the number seen in the last half dozen *Horizons* is astonishingly disproportionate; Brainstawm Syndrome presumably – obsessive scientists with no time for such effete habits as shaving).

Yet the approach to the audience is no more demotic than it ever was. In last month's edition on the Hubble space telescope we were told: "By grinding away 200 lb of glass in little more than a year the upper surface was shaped to a concave hyperboloid. To see which parts were high or low they used optical effects: coloured interference fringes." I may not know the precise meaning of all those terms, but I can catch the general drift and would much rather *Horizon* maintained its standard and left me to bobble along in its wake doing the best I can than that it should reduce everything to the Janet-and-John level elsewhere on television.

Optimists would say, probably with some justification, that there are positive as well as negative reasons to explain *Horizon's* growing audience. First, just as newspaper readership keeps on shifting away from the tabloids in favour of the broadsheets, so more and more people take an interest in this sort of serious science. Secondly, *Horizon* does seem to get better and better at its job: in all departments, from the photography of microscopic animals to the use of graphics, its techniques keep on improving.

This begins to sound like a piece from Dr Pangloss, but naturally the series is not beyond criticism. It has always had a strong American element which is becoming even more pronounced. This is partly justified by American eminence in science and especially technology, but it is hard to avoid the feeling that American co-production money is what really counts. Of the last eight programmes four have been pure American subjects: this week's on Mount St Helens, last month's on the Hubble telescope and on the San Francisco earthquake, and the one in March on Hurricane Gilbert. Moreover the programmes on social insects and on cold fusion were at least half American, meaning that only three out of eight were truly non American.

There has always been and is still a tendency to accept the tenets and attitudes of science and scientists; the public interest might be better served by larger quantities of sturdy journalistic scepticism. The March programme giving yet more time to the greenhouse effect theorists could more usefully have been given to doubters; not so fashionably green, perhaps, but more in line with the non-conformism at the heart of so much great science.

On matters of personal taste, I would prefer most of the foreground music to be pushed into the background, and most of the background music to be pushed out altogether. Those who like a particular bit of background music don't notice it, and those who don't like it do nothing but notice it – furiously – so why have it?

Still with the soundtrack, it is sad to find that the invaluable Paul Vaughan who in the past read so many of the commentaries in his clear, sane and completely unintrusive voice is being replaced now by actors and actresses, some of whom are incapable of reading a script without vigorously projecting themselves into it. Barbara Flynn, one of my favourite actresses when I can see her, read this week's, and felt it necessary to put a note of incredulity into the statistics: "Five *hundred* square kilometres of water!"

But these are quibbles. When *Horizon* comes up with a programme like the last-but-one on the use of information technology in Singapore, the tone of the voice-over is not what you are left thinking about. Written and produced by Nigel Maslin, this programme left me wondering whether I wanted to get into the wired society as quickly as possible or to stay out of it as long as possible.

In April 1978 *Horizon* gave us 50 eye-opening minutes on the application of the microchip: pocket calculators, unmanned petrol pumps, automated supermarket checkouts, robot warehousing, and other futuristic marvels which were going to change our lives such as "word processors." The inverted commas were necessary then. Now this column is composed on a word processor in Kentish Town, fired down a telephone line by a modem to the FT at Southwark Bridge, and distributed to printing plants in Paris, Frankfurt and New York via satellite – all thanks to the microchip revolution so accurately predicted by *Horizon*.

That microchip programme was hugely significant not because it considered the invention of the microchip but because it considered the applications. *The same is true of* this new one on IT in Singapore. We saw the application in the running of the container port, in teaching, in the mass transit system, in land use, and in the internationalisation of industry: thanks to IT Apple Computers can use "Just In Time" techniques at their Singapore plant – components arriving "just in time" to be used so that only half a day's stock is held, capital is not tied up, and space is not wasted.

Yet it was not that which sent a shiver down the spine, nor learning that Singapore's super-computers are not controlled by their operators but merely "monitored" by them. It was the realisation of the calm and deliberate way in which the people and government of Singapore are setting about wiring themselves together, and simultaneously setting up fibre-optic links to Europe and the US so that they can sell their IT services and systems to the rest of the world.

If *Horizon's* track record is anything to go by, and it must have one of the best of any television series anywhere in the world, you can expect to be using Singapore IT before the end of the millennium: just 3,515 days.

The good, the bad and the over-sentimental

Nigel Andrews looks at some of the frontrunners at this year's Cannes Film Festival

The worst-taste joke ever recorded at a Cannes party was that made by a British film magazine editor some years ago. Handed a free pen-set by his hosts at a Japanese reception, he quipped: "It'll never make up for Pearl Harbor."

Dear me. This man will surely be *persona non grata* in the Hollywood of the 1990s, as Japanese money moves in on the American film industry, starting with Sony's recent take-over of Columbia. He should also watch his manners at Cannes this year, where Japanese-American accord is definitely top of the menu.

Gala opening film: Akira Kurosawa's *Dreams*, produced by Steven Spielberg with special effects by George Lucas's "Industrial Light & Magic". Equal most popular film to date: Alan Parker's *Come See The Paradise*, about American internment of Japanese foreign nationals in World War Two.

Dreams opens in Britain next week, so let us leave further comment till then. Parker's film was cheered to the roof by the Cannes audience, ever a pushover for radical chic with a populist veneer. Music of syrupy uplift slides over the tale of a three-generation family of Japanese immigrants who are bundled off to a camp in Northern California during the US crackdown after Pearl Harbor. Twinned with their fortunes are those of hero and Irish-American union sympathiser Dennis Quaid, who marries into the clan.

Sweeping over ten years, the movie has love, heartache, indignation, separation and spectacle. In short no expense has been spared: or almost none. The only economy, as often when writer-director Parker tackles a historical *cause célèbre* (see *Mississippi Burning*), is with the truth. Mr P manages the astounding feat of mentioning Pearl Harbor only once, in a virtual aside, during the 2¼-hour movie.

Since anti-Japanese feeling in the US was almost wholly attributable to this event, in which more American personnel died than in the whole of World War One, it is surely worth a prominent place in the dramatic equation?

But no. Parker slaloms elegantly past, preferring to bash away generically at the iniquities and inequities of Uncle Sam and America's alleged xenophobia. Sentimentalising every Japanese character in sight, and stuffing his story with more tearful reunions per second than any film in memory, Parker clearly believes the way to an audience's political arousal is through its Kleenex consumption.

Come See The Paradise will probably win a major prize at Cannes. The French love this sort of thing, and so (doubtless) will a jury headed by international cinema's radical sheikh Bernardo Bertolucci.

It renews one respect for radical movies that are truly radical. Two films that reared out of the Directors Fortnight – Cannes' counter-event to the Competition – make the point. *Shooting Gallery* from Hungary is the electrifying tale of a young man who (apparently motivelessly) shoots his father. Though taking a "liberal" stance by virtue of showing compassion with the killer, Arpad Sopsit's film also has the searing complexity of Kieslowski's *A Short Film About Killing*. No special pleading, no political platforming. And the style eschews uplifting music and pill-sugaring pictorialism (see Parker) for jaggedly imaginative vignettes in vari-shaded monochrome.

Gianni Amelio's *Open Doors*, from Italy, is more conventionally filmed: slow tempo, quietly elegant set-ups. But its subtle subversions are a delight, as Sicilian judge Gian Maria Volonta pans the law for loopholes which will spring a multiple murderer named the "monster of Palermo" from the death sentence. The judge in turned is judged by a juror, who lobs Dostoevsky into the debate to make yet more resonant noises about crime and punishment.

Four days in, Cannes 1990 seems a surprisingly sober festival. No wild publicity stunts, no riots. The annual ritual of a garment-removing starlet has not yet happened (unless I missed it). And even a tuxedo-clad Clint Eastwood managed to descend the steps of the festival palace without being mobbed, albeit through a lightning storm of flashbulbs and a thunder of "Salut, Clint" from the crowds below.

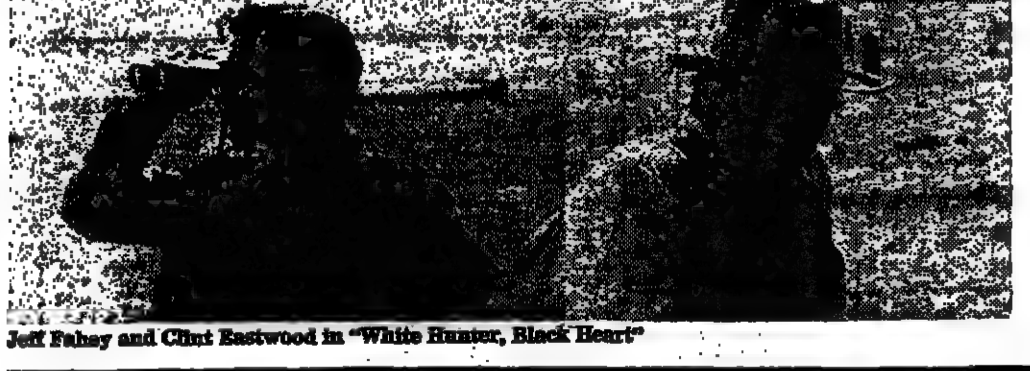
Mr E was in town with his new film *White Hunter, Black Heart*. This was the most eagerly anticipated film of the opening week. Alas, it proved the most disappointing. Eastwood, impersonating John Huston in a film of Peter Viertel's thinly fictionalised novel about the filming of *The African Queen*, surely cannot fail, we all thought. But it could.

A lolloping storyline about whether Eastwood/Huston will stay by his camera or charge off into the African bush to kill a coveted elephant is garnished with mysticism, stocked with undernourished supporting characters and tossed out to a self-important two hours. Eastwood the director is not even redeemed by Eastwood the star. He works hard at his Huston impersonation. But the master of the laconic one-liner is never at ease contorting his voice into the florid Irish-isms of the garrulous Huston.

Still, never despair. Other films are here to make one's day. The "odds and ends" section at Cannes is fast filling up with strange delights. Whit Stillman's *Metropolitan* is a witty, pixilated comedy about the partygoing life of the New York "preppy" (America's answer to Britain's debs and Hooray Henrys). Karel Kachyna's *The Eye* (Czechoslovakia) and Pavel Lounguine's *Taxi Blues* (USSR) are the first fruits of a freer Eastern Europe, lampooning bureaucracy and substituting party spirit for Party spirit. And Bertrand Tavernier's touching *Daddy Nostalgie* is a category-defying comedy-drama about love and death in an Anglo-French family.

Dirk Bogarde is Dad, dying gracefully and volubly. Odette Laure is Mum, hiding the whisky bottles, soaking up the Coca-Cola (strange addiction). And the wonderful Jane Birkin, who raises the buck-toothed smile to high art, is their conciliatory daughter, trying to relate the father she knows and loves now to the one who ignored her as a child. Slugging it out in the South of France, this trio distils every family emotion we have ever known. Place modest bets now on Tavernier for best director prize, and on Birkin and Bogarde for acting accolades.

Dennis Quaid, Tamlyn Tomita (right) and Caroline Junko King in "Come See The Paradise."



Jeff Fahey and Clint Eastwood in "White Hunter, Black Heart"

Desire

ALMEIDA THEATRE

With his latest play *Desire*, David Lan completes a trilogy that began life more than a decade ago with *The Winter Dancers* and *Sergeant Ola* at the Royal Court. Where its predecessors were set respectively in British Columbia and New Guinea, the focus this time is a rural Zimbabwe emerging from the schizophrenia of revolution. The cultures described are different, but the sequence is a chronological and there is a common theme – informed by Lan's work as ethnographer – of the demonology of the tribal conscience struggling to find its own solutions to guilt and oppression.

In *Desire*, set a century after *The Winter Dancers*, the enemy is within communities which have closed their eyes, through necessity, to the various forms of betrayal: Freedom, an allegorical wraith in combat uniform, fights for possession of a young village woman who cannot make up her mind between her father (Louis Mahoney), a tribal elder, or the fresh-faced young tsetse fly-sprayer (Cyril Nri) who has bought her as his bride.

It is basically a story of exorcism through possession, culminating in the frenzied acknowledgement of a collective guilt. Freedom (Marcia Myrie), in life a guerrilla, was shopped by her own father; her death was accelerated by the fly-sprayer and her body desecrated by the village elder, who tore his bicycle away from her where she lay, presumably wishing to avoid incrimination. Fear, officiousness, despair and ambition all played a part in her death.

Vicky Licorish

The trouble with the play, which seems far longer than its 90 minutes, is the time that Lan takes to get to his point. Even when he does, there is a sense that he has somehow managed to leave the central confrontation on the sidelines.

It surfaces, briefly, through a young revolutionary called Danger, who witnesses the exorcism in some perturbation: "We fought to give them back a sense of who they are, their culture, history. For myself – I trained in Finland, Cuba – it makes me uneasy."

The conflict of ideology and style that he represents is cursorily thrown in at the end of a fable which, in its fragmentary early scenes, seems unnecessarily thin, whisked into an atmospheric folksiness by director Andrei Serban, with a running percussive backdrop.

Both the acting and direction begin to become impressive when the drums sweep the company into a final frenzy led by the diminutive Vicky Licorish, whose voice and body do indeed seem possessed by something bigger and more brutal than herself. All well and good, but one is left feeling that Lan himself has somehow managed to evade the spectres he has raised.

Claire Armitstead

Chaikovsky

BARBICAN HALL

Chaikovsky, born 150 years ago, was offered a diverse bag of musical tributes, some slightly foxed, at the English *Chamber Orchestra's Anniversary* Concert on Monday. The programme was not filled entirely with familiar stuff – there is a good deal of little-known Chaikovsky tucked away beside the excessively well-known – but the execution failed to make the mixture a properly balanced one.

So Raphael Wallfisch gave us not only the Rococo Variations but also the little Nocturne for cello and orchestra, an adaptation of a piano piece, and a particularly touching small piece of the elegiac Chaikovsky.

Mr Wallfisch is a well-schooled, highly responsible performer whose playing, here at least, wanted the bravura projection required to lift the music across the windy Barbican spaces and give it a properly *larger-than-life identity*. The Variations trotted pleasantly on; the element of virtuosity was absent not in the formation of notes but in the *spirit behind them*.

A choral group, five unaccompanied liturgical pieces given by the Kastalsky Chamber Choir under Ivan Moody, dragged badly, quite lacking any Russian Orthodox emotional intensity – in spite of their name the little choir gave an undiluted display of appliqué English choral professionalism. For the occasion the ECO had commissioned from the young Russian composer Elena Firsova a concert-opener, *Autumn Music*, that was little more than a spun-out stretch, not unpleasant, of amorphous nature images: if any Chaikovsky recollection was achieved, I missed it entirely.

What saved the concert was the Serenade in C at the end. Vassily Sinaisky, a Karajan Competition winner and a Bolshoy and Maly Theatre conductor, seemed to be trying to draw from the staid ECO strings a vibrantly rubato-laden response beyond their current means.

But the attempt, at least, was impassioned, the result unpredictably lively. We *remembered at last* why we were there, and what there was about the anniversary object worth celebrating.

Max Loppert

ARTS GUIDE May 11-17

THEATRE

London

Anything Goes (Prince Edward). Cole Porter's silly ocean-going 1930s musical in Jerry Zak's desperately bright production is undemanding fare (734 8951, cc 836 2428).

Jeffrey Bernard is Unwell (Apollo). Tom Conti is the alcoholic journalist in Keith Waterhouse's fine play, the season's highlight, stitched from Bernard's own writing. Ned Sherrin directs (437 2663).

Aspects of Love (Prince of Wales). Andrew Lloyd Webber's latest is a chamber operetta derived from David Garnett's 1955 novella. Musically interesting and well directed by Trevor Nunn. (839 5972).

Bus Stop (Lyric). Glam revival of William Inge's 1955 Kansas comedy, with Jerry Hall making her West End debut. Plenty of glow but not much grit (437 3686).

Shadowlands (Queen's). Weepie about the love affair between crusty Oxford writer C.S. Lewis and the cancer-riddled American poet Joy Davidman in William Nicholson's play. Elijah Moshinsky's direction is superb (734 1166/439 3849).

Stuttgart

Makal City Theatre, Marienstr. 12. Peter Makal, director of the Stuttgart-based International Festival of Mime, now in its eighth year, has put together a truly world-class programme. Ends June 4 (0711/[illegible]).

New York

Cat on a Hot Tin Roof (Eugene O'Neill). Kathleen Turner, whose statuesque good looks embody Tennessee Williams' vibrant character Maggie, is surrounded by an excellent supporting cast in Howard Davies' production.

Grapes of Wrath (Cort). The Steppenwolf company's interpretation of the Steinbeck epic novel brings alive the 1930s in its squalour as well as its test of human strength. Gary Sinise as Tom Joad, stands out in Frank Galati's adaptation.

Heidi Chronicles (Plymouth). Wendy Wasserstein's award-winning drama covers 20 years in *the life of a successful American* baby boomer accompanied by the musical and emotional flavour of the period (239 6200).

Gypsy (St James). This 30th anniversary production does more than revive a rich, vivid musical; it also introduces a new belter in the Merman tradition, Tyne Daly, as the bossy Rose, who shamelessly leads her daughter into burlesque. (246 0102).

Grand Hotel (Martin Beck). Tommy Tune, Broadway's present musical doctor, directs this remake of the Garbo film (246 0102).

Sweeney Todd (Circle in the Square). An intimate production of the Sondheim-Wheeler musical emphasises the descent into madness of Bob Gunton as the demon barber of Fleet Street (239 6200).

Jerome Robbins' Broadway (Imperial). Anyone attracted by the notion of three hours of film trailer previews will adore this compendium of Robbins' directed and choreographed plays of the past 40 years, including *On the Town, West Side Story* and *Gypsy*.

Cats (Winter Garden). Still a sell-out, Trevor Nunn's production of T.S. Eliot's children's poetry set to music, is visually startling and choreographically feline (239 6262).

Les Misérables (Broadway). The magnificent spectacle of Victor Hugo's majestic sweep of history and pathos brings to Broadway lessons in pageantry and drama (239 6200).

Phantom of the Opera (Majestic). Stuffed with Maria Bjornson's gilded sets, Phantom rocks with Andrew Lloyd Webber's haunting melodies in this mega-transfer from London (239 6200).

Washington

Serafina (Kennedy Center Opera House). The spirited teenage cry for freedom, including shrill enactments of police brutality, brings the hyper-reality of South Africa home with a lively beat. Ends May 27 (457 4600).

Chicago

Uncle Vanya (Goodman). Michael Maggio directs John Mahoney in David Mamet's new adaptation of the Chekhov classic. Ends May 26 (443 3800).

Steel Magnolias (Royal George). Ann Francis and Marcia Rodd play the leads in this view of southern life from under the dryers in a busy hairdressing establishment (988 9000).

Fraternity (Pegasus Players). Jeff Stetson's political drama focuses on the civil rights movement to explore issues of principle and compromise. Ends June 3 (271 2638).

A Chorus of Disapproval and The Beggars Opera (Court). With clever scheduling, Alan Ayckbourn's comedy about putting on *The Beggar's Opera* appears in repertory with the work itself. Ends May 27 (753 4472).

Tokyo

Kabuki. Kabuki-za. Performances this month feature two leading onnagata (specialists in female roles), as well as a traditional name-taking ceremony. The highlight of the 4.30pm show is a famous scene from *Meiboku Sendai Hagi (The Disputed Succession)*, one of the classic "loyalty plays" of the Japanese theatre. Excellent earphone guide in English and English-language programme. Ends May 27 (541 3131).

King Lear. (Sogetsu Hall, near Omotesando) Japanese avant garde director, Tadashi Suzuki, working with American actors, has produced a radical reworking of Shakespeare's tragedy (in Japanese). From Tues (408 1126).

Hamlet. (Parco Theatre) Performed in Russian by the Moscow Theatre of the South-West, said to be the USSR's only self-supporting company. Opens Thursday (370 2692).

Peer Gynt (Aoyama Theatre) Japan's most famous director, Yukio Ninagawa, tackles Ibsen's "unstageable" masterpiece, with a cast headed by two popular young rock singers. In Japanese (201 7777).

Noh. (National Noh Theatre) Ataka: the famous story of the servant Benkei and his lord Yoshitsune, who disguise themselves as itinerant priests to pass a military checkpoint. Wed at 1pm (423 1331).

Prague Chamber Ballet

BRIGHTON FESTIVAL

They order these things differently in Czechoslovakia, if the Prague Chamber Ballet is anything to go by. "Ballet" is a term all too loosely used there to cover a dance-style slack in its physical demands and unsubtle in its aims. And though one may understand some of the circumstances that surround the activities of this small ensemble – presented at the University of Sussex Gardner Centre as part of the Brighton Festival – there is no escaping the predictabilities of what is on offer. (These are as much clichés as those of any small ballet company in this country, though for our classical pretensions and winsomeness, the Czechs substitute *angst and jokiness*).

Pavel Smok is director and chief choreographer of the company, but the first item in Monday night's programme was a realisation of a set of Dvorak waltzes by Katerina Frankova. Three couples did interminably what one might expect, and the girls wore the sort of dresses one hoped they wouldn't. Mr Smok's *From my Life* was, of course, the Smetana first string quartet, with three more couples having a hell of a time, aided by the spectre of the composer's deafness, more peasant waltzing, and an earnestness of manner which did not disguise the turgid nature of the choreography.

With companies such as this, I have a feeling that there should be a footnote in the programme which abjures us: "Don't watch the steps; read the message!" And if anguish, like love, were all – and it often is in works of this kind – then we might succumb more willingly.

The final *Smokoviny* lies in the shadow cast by Jiri Kylian's horrible *Symphony in D*, with frenetic capers again crucifying a classical score. This time it is Mozart's third violin concerto – time to man *the barricades* and *put a stop* to barbarism – which is daubed with such physical graffiti as Mr Smok's wit can devise.

Girls are manhandled; bodies loop over the floor and are trodden on; the dancers are very, very amused by it all, and occasionally yelp to let us know what fun they having. How alluring are the exit signs in the theatre as yet another Czech behind rears merrily at us, or another nose is tweaked.

Clement Crisp

FINANCIAL TIMES
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The role of sanctions

PRESIDENT F.W. de Klerk has worked hard to end South Africa's isolation. There are good grounds for hoping that the transformation of South Africa is under way. Yet there is more to do. The apartheid constitution and the principal apartheid laws are still in place.

The progress made so far is encouraging. Mr Nelson Mandela has been released. Many, though not yet all, political prisoners are now out of jail. The African National Congress, the South African Communist Party, and other formerly proscribed organisations have been unbanned and the state of emergency has been eased. These moves, taken together, paved the way for the recent historic meeting between the South African Government and an African National Congress delegation led by Mr Mandela. Both sides committed themselves to a "peaceful process of negotiations" and both appeared willing to give ground.

One consequence is that Portugal, possibly accompanied by Britain, may suggest at the forthcoming Dublin summit of the European Community that there should be a removal of EC sanctions, to encourage the negotiating process.

Encouraging signals

The question is whether this is necessary, or desirable. As to the first, the South African President has already been sent signals of encouragement. Mrs Margaret Thatcher ended Britain's voluntary bans on investment and the promotion of tourism in an immediate response to the release of Mr Mandela. Of perhaps greater significance is the fact that Mr de Klerk has not had to endure the pariah status inflicted on his predecessors. He is being welcomed in various European capitals; this weekend he will spend time at Chequers, the country residence of the British Prime Minister. He has enjoyed a cordial reception in several African states, and he has been invited to meet President George Bush.

As to whether a co-ordinated lifting of sanctions by the EC, the United Nations, the Commonwealth and the United States is desirable, the answer must be – as soon as possible, but not quite yet. For there remain grounds for caution. Although the outcome of the talks with the ANC was encouraging, that meeting did no more than prepare the way for the major challenge to come: formal constitutional negotiations, involving other organisations such as Chief Mangosuthu Buthelezi's Inkatha movement, plus the white opposition parties, at which a wide gap has to be bridged.

Constitutional device

The argument will be about the entrenchment of minority or group rights. To date such constitutional devices have amounted to disguised forms of maintaining white rule; Mr de Klerk has not yet conclusively demonstrated that this is no longer his government's purpose. Mr Gerrit Viljoen, the Minister for Constitutional Affairs, failed to clarify this last weekend. An "unsophisticated majority vote," he warned, led to one party dictatorships. Individual rights, he suggested, included the right to live in a "community context" and the provision of "own schools" which receive state funds. The ANC has said that it is committed to a bill of rights, which would include provision for a multi-party state, but it has repeatedly stressed its opposition to any system which allows racially determined guarantees of minority rights.

Once the principle of genuine democracy, which must mean majority rule, has been irreversibly conceded, the ANC will find it difficult to justify a refusal to accept entrenched constitutional safeguards for those who feel their natural human or minority rights might be under threat. The present situation, however, is that on substantive matters the South African government has so far delivered promises. It would take an enormous leap of faith to withdraw official sanctions on that basis. The sanctions of the marketplace will remain in force until there is an assurance of political stability. Mr de Klerk's aim is to lead his country on a track back into the world community. The EC should signal that its aim is to welcome a properly democratic South Africa, just as soon as it can.

Solutions for the debt problem

"AN IMPROVEMENT in the economic performance of indebted developing countries remains one of the foremost international economic priorities for the 1990s." Thus wrote the staff of the International Monetary Fund in its World Economic Outlook, published this month. Unhappily, the objective of ending the eight-year-old Third World debt crisis remains as elusive as ever.

The governments of industrialised countries have, it is true, made important concessions to the heavily-indebted countries over the past two years. Many have converted aid loans into grants. At the 1988 Toronto summit, heads of government agreed on a formula to allow relief on the debt owed by the poorest African countries to export credit agencies. Last year saw the adoption of an initiative of the US Treasury Secretary, Mr Nicholas Brady, which encouraged the use of resources – mainly from the International Monetary Fund and World Bank – to encourage banks to write-off some loans to middle-income countries.

Although the financial benefits that have accrued to developing countries have been modest so far, policy-makers have at least shifted the focus of the strategy away from further increases in debt obligations and towards a lowering of debt burdens. They have also conceded that onerous levels of foreign debt can be an obstacle to the adoption of desperately needed improvements in economic policies.

Anomalies

Unfortunately, the developed countries have not followed this realisation to its logical conclusion. As currently conceived, the debt strategy is full of anomalies and contradictions. For example, governments have persuaded commercial banks that their loans to middle-income debtors are no longer worth 100 cents on the dollar, but they persist in the illusion that this is not true of official export credits.

This produces the absurd result that Mexico is better treated than Poland. Poland owes two-thirds of its $41bn foreign debt to western export credit agencies, which – although they are not demanding interest payments until April 1991 – have not conceded debt write-offs. Mexico, however, which owes most to western banks, has just completed a package to lower its $100bn debt burden.

Apart from the big four debtors – Argentina, Brazil, Mexico and Venezuela – nearly all indebted countries owe more to western governments than to bank creditors. Any comprehensive initiative to resolve the problem of Third World debt must tackle debt owed to the former. This may well reduce new export credits to rescheduling countries. So be it. Experience suggests, in any case, that the use of tied export credits is far too often of dubious benefit to economic development.

Write offs

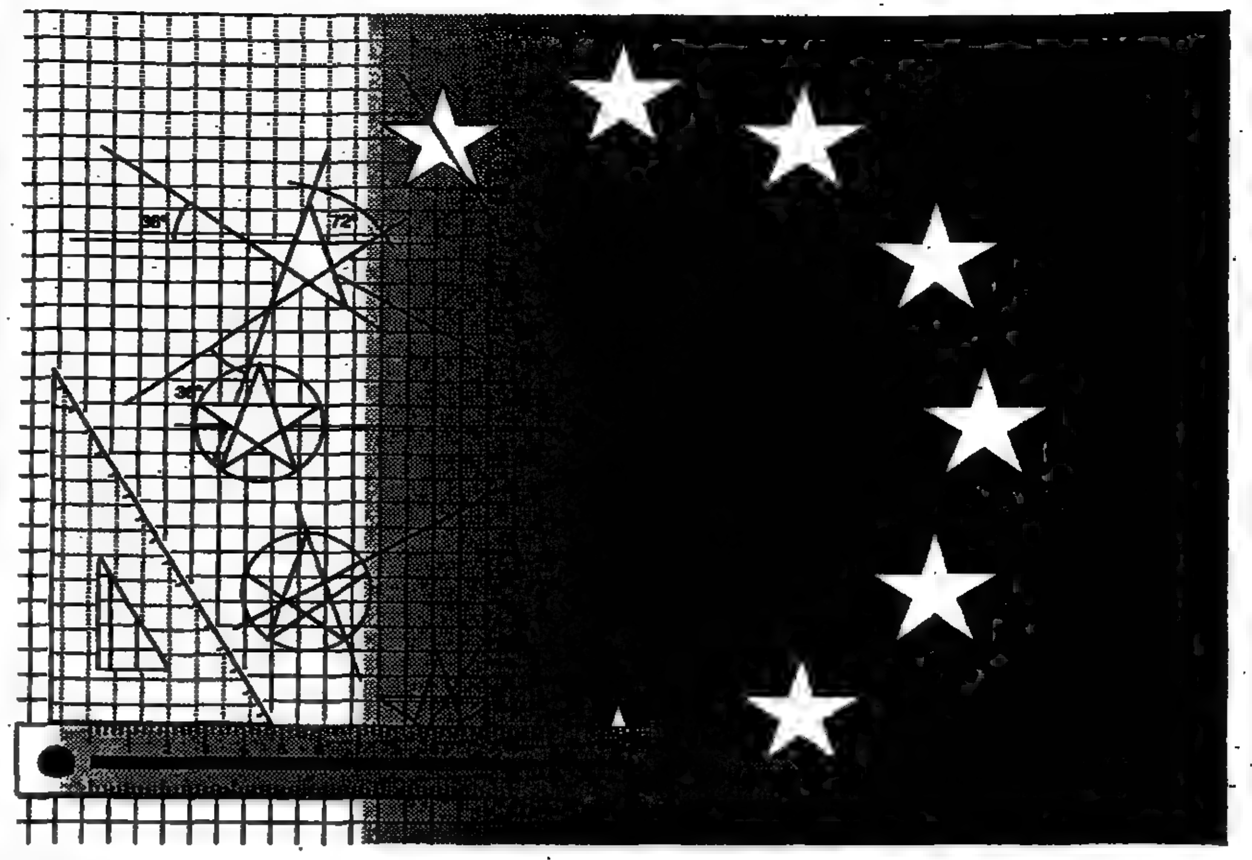
Debt relief should not be extended to loans from international financial institutions. If it were forced to forgive arrears, the IMF's role at the heart of the financial system could be fatally undermined. Similarly, write offs would raise the cost of borrowing for the World Bank and other development banks, and so damage the cause of development in the long term.

Equally, a widening of debt relief must not go ahead on a purely *ad hoc* basis. The Fund and Bank should, instead, act analogously to domestic bankruptcy courts. Their role would be to ascertain the ability of heavily indebted countries to meet their current debt burdens, while sustaining economic growth and political stability. Where that combination seems impossible, they should recommend adequate levels of debt relief, while insisting upon the *quid pro quo* of a satisfactory programme of economic adjustment.

Contingency clauses to benefit both creditors and debtors in case of external economic shocks could be included, but any debt relief package should, if possible, be once and for all. The arbitrary divisions which currently separate candidates for various forms of debt relief would disappear. Instead, a general assessment of a country's long-term ability to pay would end in a proper division of the burden between the private and official creditors.

Europe on the drawing board

David Buchan and Edward Mortimer on the competing blueprints being studied by the EC's 12 member states as they forge ahead in talks on political union



WHY not get out your computer-aided design kit and have a go at re-shaping the European Community? Virtually everyone else is, as the EC gets set for another lurch towards closer integration.

The plans are pouring in. Some of them are pragmatic but puny, like those from Britain; others are vast but vague, as from France and West Germany. The winning design will be a compromise, not to say a mishmash, so as to please all 12 EC states on the judges panel. But such is the prevailing climate of majority opinion that the odds are on first prize going to something that will give the European Parliament substantially bigger powers in making laws, the European Commission and Court greater clout in enforcing such laws, and the Council of Ministers a larger role in running a more common foreign policy.

Remember, too, to get your plan in early. The competition schedule is hectic. Tomorrow the Parliament airs its views in Strasbourg, before assorted ministers from the 12. On Saturday the venue switches to Parknasilla in south-west Ireland where foreign ministers meeting under the Irish presidency of the EC will take a first stab at reconciling their governments' differing views on the agenda of the conference about political union. They will have a second stab in mid-June.

A few days later in Dublin EC leaders will call a treaty-revising conference on "political union" to start by year's end. But they may not have to hold their breath that long; energetic and federally-minded Italy, which takes over the presidency for the second half of this year, has pencilled in a special summit for October.

All this is taking place only three years after the entry into force of the Single European Act (SEA), which reinforced the Community's supra-national character by extending majority voting, and created a formal structure for common foreign policy-making known as European Political Co-operation (EPC). But some of what is happening now flows directly from the SEA negotiations of 1985-86. Governments are disinterring pet projects that got buried at that time, while also trying to remedy the "democratic deficit" that the SEA is perceived to have slightly worsened; control by national parliaments over their governments becomes moot when those governments can be outvoted in Brussels. Other catalysts for action are, of course, the newly-felt needs to bind pan-Germany into the Community and to fill the political vacuum left by the collapse of Soviet power in eastern Europe.

The only area in which the UK wants to see the Parliament's powers increased is in better auditing of EC spending

With all the solutions now on offer, it has been easy to lose sight of the problems:

● Inefficiency. The SEA left some social, environmental and all tax matters subject to unanimity. This is where the remaining roadblocks to the single market are to be found. Belgium, so far the only government to come up with a detailed political reform plan, has proposed opening these sensitive areas to majority voting. Italy backs the idea. Most other governments will probably draw the line at letting themselves be outvoted on tax.

To deal with backsliding governments which ignore European court rulings, Belgium – itself no mean backslider – has suggested reinforcing the Court's authority by perhaps denying recalcitrant states access to Community funds. This has the support of the UK, which last week asked the Commission to widen the scope of its finger-pointing reports on the implementation of single-market legislation. The Commission responded favourably. The only area in which the UK wants to see the Strasbourg Parliament's powers increased is in better auditing of EC spending.

"We would like to see Commissioners and their directors-general as scared of the European Parliament's budget control committee as Whitehall is of the Public Accounts Committee at Westminster," says a UK diplomat. Britain's EC partners find this approach too much that of the policeman or chartered accountant to appeal.

● Lack of democratic control. The SEA gave the Parliament power to amend single-market laws, but only if the Commission accepts the amendments and if the Council cannot find unanimity within itself to reject them. Generally, therefore, the Council has the final say. Under the Belgian plan, the Parliament would have the backstop power to annul any legislation.

British diplomats believe this to be unacceptable to most governments, which would not tolerate MEPs blocking something which had been twice through the Council. In fact, yesterday the 180-strong Socialist group, the largest in the Parliament, said this annulling power would be seen as a spoiling tactic, and its top priority would be the right of "co-decision" – an equal say with the Council throughout the whole process of legislation.

Even Italian diplomats say they would only give Parliament co-decision with the Council on all international agreements; at present Parliament's approval is only required for certain "association" agreements with third countries and for admitting new members to the EC. Yet, calculations by Britain and by France (which is less than totally keen on increasing Parliament's powers) could be upset if Chancellor Helmut Kohl really means what he has been saying – that MEPs must have more influence by the time of their next election in 1994 – and if others follow his lead.

The frustration of national parliaments about power drifting away from them is widely agreed. There is no agreement on what to do about it. The idea of national legislatures sending some of their number to make up a European Senate or upper house has won few converts, either in the actual Parliament (which does not want competition) or among national MPs (most of whom do not want the strain of being in two places at the same time, as was the case before 1979 when MEPs started being directly elected). Opponents of a Euro Senate argue that the nation states already have their representation in the Council of Ministers, which is effectively the upper house of EC law-making.

Another idea, falling well short of an upper house, is being canvassed by Sir Leon Brittan, the senior British Commissioner in Brussels: a Committee of National Parliaments would be formed to hold periodic meetings with the Council of Ministers and issue advisory opinions as to what should, and what should not, be legislated at the EC level. But MEPs need to unruffle the feathers of national MPs – they know any treaty revisions giving Strasbourg more power must be ratified by the parliaments of the 12.

So, they will be inviting national MPs to a special joint meeting this autumn to tell them the the following: "Yes, power has slipped out of your grasp – but it hasn't landed in our lap. It has landed in that of the Council, a secretive body which needs calling to account. So it is the duty of us all to see this democratic gap plugged." In Strasbourg, of course.

● Foreign policy schizophrenia. Does the EC need to present a single face and voice to the outside world? More than ever, say all 12 EC states, and the two most powerful, France and Germany, are indeed calling for "defining and putting into practice a common foreign and security policy."

But how to do it? The EC has long operated a distinction between economic matters such as trade, which the Commission negotiates on the 12's behalf, and political attitudes towards third countries, which the 12 concert through the EPC rather than Community framework.

This dividing line has almost disappeared in the area of Community *Ostpolitik*. Such outsiders as the US and Japan helped start the rot when a year ago at the Paris western summit they agreed that the European Commission should be the co-ordinator of all western aid to eastern Europe. Since then, foreign ministers have been convening their Brussels-based EC ambassadors and home-based political directors around the same table to discuss eastern Europe. The blurring of the Community/EPC split is scarcely surprising, since the 12 have the highest political stakes in helping eastern Europe. But what they have to offer – aid and particularly trade – is clearly Community territory.

Belgium now advises further blurring or "convergence", with a special mixed task force of national and Commission diplomats created to co-ordinate policy on east Europe. The recent muddle over visas for east Europeans shows better co-ordination is vital, claims a Belgian diplomat.

Significantly, however, even the ultra-*communautaire* Belgians have not suggested obliterating the EPC distinction altogether. Foreign ministries just do not want to put their policy co-ordination through the standard Community mangle. Like central bankers, they mistrust EC institutions as leaky; the small EPC secretariat is housed in the Council building in Brussels but has tighter security.

The Commission may be Europe's foreign ministry-in-waiting, but still has some waiting to do. Its external relations department has 600 people in Brussels and abroad – the same number as the British embassy in Washington. The Commission is strong in areas of traditional activity, such as aiding black Africa, but only this year will it establish two missions (Warsaw and Budapest) in eastern Europe.

The opposite way to get coherence is for EC governments to take back all "high policy" into their hands, leaving the Commission to carry out "low policy". France may have just this mind, judging from noises out of Paris that the European Council (the grouping of EC heads of government) should become more active and gain continuity with some grand personage becoming its president for a two-year term. Such ideas make Mr Jacques Delors, the Commission president, nervous that foreign policy may slip out of, just as it was slipping into, Brussels' grasp. They would also probably set Mr Mitterrand at odds with Chancellor Kohl whose only reform focus seems to be on the Parliament.

Partly on the assumption that the Franco-German axis will come apart on political reform, Mrs Thatcher says that the coming negotiation over political union will be shorter and less fierce than that on monetary union. This may be optimistic. For the EC may now have to address the long-unasked question about its final shape.

The key to this is subsidiarity, the principle that the EC should only do what it can do more efficiently than states or regions. Already in dispute, subsidiarity will be at the heart of next year's negotiations on monetary union. For the first time in the Community's history, people are trying to pin down an answer. Ex-President Valéry Giscard d'Estaing, now an MEP, has produced a report spelling out which powers should go to the Community and which should stay with the states. In the report, to be debated shortly in Strasbourg, he suggests: "The Community and the member states will soon reach a point of equilibrium regarding the allocation of powers. It will then be possible, as in a national federal system, to establish a fairly clear dividing line, laying down rules which will be sufficiently precise and whose application might be subject to judicial supervision."

Mrs Thatcher says the coming negotiation over political union will be less fierce than that on monetary union

Mrs Thatcher herself has fuelled the debate by demanding prior elimination of what would not (monarchies, etc) be affected by political union. Though the outcome of the negotiations might itself be modest, the day of a stand-up argument over the EC's ultimate destiny may be nearing.

OBSERVER

Changes in the codes

■ There is a great deal of innocent pleasure to be derived from the new edition of Debrett's Etiquette & Modern Manners, published this week and sub-titled Correct Behaviour for Every Sphere of Social and Business Life. Although we imagine that few of our readers will need to consult it, the book is still worth looking at for the changes it shows in acceptable behaviour over time.

For do not think that Debrett is fossilised. It adapts to such innovations as the telephone answering machine: "These machines can make the caller feel awkward because one is talking into a void. However, we must learn to use them as they become more popular every day."

Some of the advice is elementary: for example, on using a spoon and fork. "Many puddings are eaten with both spoon and fork. The fork is held as it is when used with a knife, tines pointing downwards. One implement operates as the receptacle, the other as a guide." There is even an illustration to go with it, as there is for the position of knife and fork when the diner has finished.

Among the recommended helpful gambits for conversation at dinner is: "What is the nicest thing that happened to you today?" although, as Debrett points out, it does slightly depend on the fellow diner having had a reasonably happy day. There is also: "If you were the Queen, what opera/ballet/play would you choose to have performed for your Gala?"

It is, Debrett notes, unwise to discuss politics with a stranger: "He may hold strong views quite opposed to your own." And among the gambits not recommended are questions that might be on a government form or an application for a visa. For instance: "Do you live in London? What do you do? Have you any children? Have you been abroad this year?"

Kinds of bore

■ It is when it moves into the more sensitive areas of human behaviour that Debrett becomes interesting, and possibly useful. Here is the advice on bores at dinner. The general rule is never to invite one, "but sometimes a friend's fiancé, or spouse, though kindness itself, spreads a blanket of boredom over the dinner table."

Debrett explains that bores come in two categories – "those with no conversation and those with too much. Those in the first category blossom if asked the kind of questions that have been forbidden elsewhere, *eg* 'Have you been abroad this summer?' Bores in the second category love telling anecdotes, often rather long drawn out ones and often previously recounted." One answer is: "I've never stopped laughing at that, Henry, since the first time you told me."

The ideal hostess deals with this second kind of bore by sitting him next to her. That keeps him away from the other guests, allows her to observe the rest of the table and mentally to check when the tarte tatin should come out of the oven while the bore bores on.

Role of women

■ It is in business manners where the main changes have been taking place, largely because of the influx of women. There is now something of a rift, Debrett reports, between the codes of business and social behaviour, although they still have the same roots.

Thus "a man who, in a social context, would always rise when a woman enters the room, and always open the door for her to leave, is not expected to leap up and down each time his secretary walks in and out of his office." Besides, Debrett notes perceptively, "professional and managerial women prefer to be treated with no less, *but equally no more* (my italics), courtesy than their male colleagues."

"When I go, I want to take someone with me."

And "after a meeting of eight men and one woman (a not uncommon ratio) it would be silly for all the men to stand back for the woman to pass through the door first – although in a social context they should do just that."

Men have to watch their dress just as much as women. "A man who removes his jacket in the office should remove his waistcoat, if any, also. A man who wears braces should either keep his jacket on or remove the braces completely (that is, not leave them hanging around the hips). A man who rolls his shirt sleeves up should not roll them above the elbow. It is hard on the eyesight of colleagues to wear a strongly-patterned tie with a strongly-patterned shirt."

As for "the woman who wants to be taken seriously in a business context," she "should not wear low necklines, see-through blouses, very short or split skirts or noisy jewellery."

There are, of course, exceptions, who defy the rules of dress and still do well. But, according to Debrett, they may have succeeded in spite of, rather than because of, their defiance.

Just people

■ The main point of the modification of behaviour between the sexes in social and business life, Debrett says firmly, is that a business woman should be treated in accordance with her place in the hierarchy of the firm rather than in accordance with her sex. "People in business are people, not men and women."

Moreover, in a flash of modernity, Debrett rules that the term Ms (pronounced "miz") "although not yet fully established, is certainly the best solution" in writing a letter to a professional woman whose marital status is unknown.

And foreigners

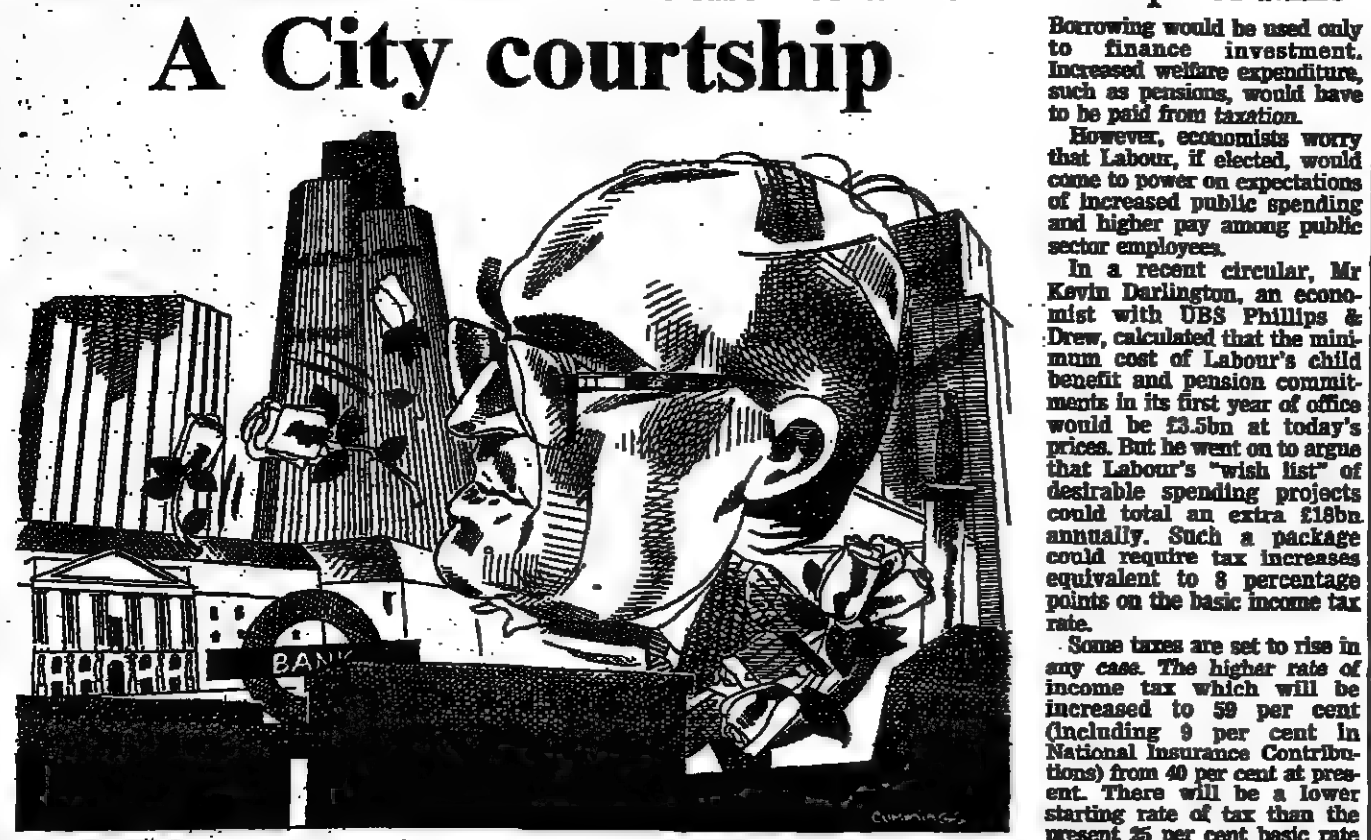
■ There remains some guidance on business contacts with foreigners, especially Arabs. "Anyone finding himself in a situation where it is necessary to sit cross-legged on the floor should remember that the sole of the foot must never point towards anyone." Also, never ask after an Arab business contact's wife. It is permissible to ask after his "house," which presumably includes the womenfolk. But Debrett warns: "The surest way to avoid causing offence is to pretend that women don't exist at all."

Remember with Japanese that "yes" means "I've heard what you said," not "yes."

The book is published by Webb & Bower at £14.95.

Peter Norman on shadow Chancellor John Smith's effort to win over the Square Mile

A City courtship



Mr John Smith, the British Labour Party's shadow Chancellor, has had a good run in recent months.

He has helped topple a Chancellor and won respect among policy makers abroad. Most important, he has gained ground in the age-old battle to win credibility for his party's economic policies in financial markets.

Through lunch-time meetings and seminar appearances, Mr Smith has won quite a following in the City. If one recent survey is to be believed, British economists think the Scottish advocate-turned-politician would make a better Chancellor than Mr John Major.

But the period of Labour's easy conquests in the Square Mile may be coming to an end.

The increasingly likely prospect of Mrs Margaret Thatcher's Government taking sterling into the *exchange rate* mechanism of the European Monetary System would rob Labour of one of its main selling points to financial markets.

A campaign document – under discussion yesterday in Labour's home policy committee and due to be finalised around the end of the month by the National Executive Committee – includes the latest version of its economic policies and so will refocus attention on the gaps and costs of the party's plans.

Paradoxically, the Government's growing problems of controlling public expenditure this year could also damage *Labour by fuelling* concern about the party's ability to control inflation and manage pressure for increased public spending and sharp increases in public sector pay.

However, Mr Smith believes the City's interest in Labour reflects more than mere disenchantment with the Conservative Government's performance in managing the economy.

"Two *things* are *happening* in the City," he says. "There is a profound lack of confidence in the course of economic policy that's been followed over the last two or three years and disbelief in the Government. Therefore they are looking much more seriously at the Labour Party. And they see the logic – I wouldn't say they agree with all our points of view, I wouldn't expect them to – but I think they see a structure and a logic which they don't disagree with too much."

This judgement is borne out by the bankers and economists who were approached in preparation of this article, although few were prepared to discuss Labour's policies and prospects on the record.

Labour's economic policies have changed considerably since Mr Smith became Shadow Chancellor after the last general election. The party is far less hostile to the market than before. It has appeared more willing than the Prime Minister to make sterling a full member of the EMS.

On the other hand, Labour would raise the upper rate of income tax and impose a minimum wage. Its micro-economic policies and proposals for a Medium Term Industrial Strategy to revitalise manufacturing industry have more than a whiff of its old interventionist attitudes.

Surprisingly, the City seems relatively *untroubled so far* by these aspects of the party's policy, perhaps because parts of the City, notably the big banks, tend to be corporatist in attitude. Those with long memories in the equity and Gilt-edged markets recall that the City has done rather well under past Labour governments.

However, it would be wrong to suggest that Labour and the *City are natural allies. Labour* has been enjoying a "Smith bonus" that has become more pronounced since the move of the more left wing Mr Bryan Gould – whom many in the City did not like – to the shadow environment post from his former job of shadowing the Department of Trade and Industry.

Mr Smith's embrace of the EMS has played a crucial part in increasing Labour's credibility in the Square Mile. The prospect of a Labour government backing ERM membership for the pound has added flesh to the party's counter-inflationary commitment.

The campaign document that is currently being prepared will make the point that Labour is eager to negotiate early entry into the ERM. But Mr Smith's obvious commitment to the ERM has not dispelled all worries about inflation, public spending or public sector pay.

Economists at Warburg Securities have written of a "lick and promise approach to tackling inflation." According to Mr Kevin Gardiner of Warburg there is "a huge question mark" over Labour's counter-inflationary commitment.

Mr Peter Spencer, UK economist of Shearson Lehman Hutton, says "inflation has always been the City's worry about Labour." But, he argues, this worry may be increasingly academic because *Britain* will have to be in the ERM in the 1990s and so automatically part of a low inflation European Community.

Many economists fear that Mr Smith has sold full EMS membership too readily as a panacea to his colleagues in the party without making clear that sacrifices will be involved. In particular, *participation* in the ERM could spell problems for Labour if it sticks to its plans for more public spending.

It is in its approach to public expenditure that Labour's macro-economic policy stance differs most from that of the Government. Mr Smith rejects the present Government's policy of reducing public spending as a percentage of gross domestic product. "There are a lot of justified claims," he says. "We need to have more public spending to improve our public services and we need to improve our measures of social justice."

But he has been careful to avoid spelling out in detail what Labour would do and has insisted that Labour "will relate its public expenditure programme to the realities of the economy." Mr Smith promises to be firm if faced with large, catch-up pay claims in the public sector. "We would explain to people that they may well have a justified claim but we will have to deal with the *matter gradually* in line with what the economy will permit," he says.

He says increased public expenditure would be financed through economic growth that would stimulate tax revenues. Borrowing would be used only to finance investment. Increased welfare expenditure, such as pensions, would have to be paid from *taxation*.

However, economists worry that Labour, if elected, would come to power on expectations of increased public spending and higher pay among public sector employees.

In a recent circular, Mr Kevin Darlington, an economist with UBS Phillips & Drew, calculated that the minimum cost of Labour's child benefit and pension commitments in its first year of office would be £3.5bn at today's prices. But he went on to argue that Labour's "wish list" of desirable spending projects could total an extra £18bn annually. Such a package could require tax increases equivalent to 8 percentage points on the basic income tax rate.

Some taxes are set to rise in any *case. The higher rate of* income tax which will be increased to 59 per cent (including 9 per cent in National Insurance Contributions) from 40 per cent at present. There will be a lower starting rate of tax than the present 25 per cent basic rate and more than two income tax bands, making the British tax system more akin to those elsewhere in the EC.

It is when the *increased* public expenditure under a future Labour government is linked with British membership of the ERM that some economists see a serious dilemma looming for Labour. The current slowdown in the economy and the rapidly escalating demands of Conservative spending ministers mean it is extremely unlikely that Labour will inherit a substantial budget surplus if it wins the next election.

If a Labour government takes sterling into the ERM – or is beaten to the post by the present Government – it would find itself in a new austere climate for increasing government outlays. If it wanted to increase spending sharply, it would have to raise taxes soon afterwards, according to Shearson's Mr Spencer.

As the general election draws nearer, Labour's economic policies and the attitudes of its Treasury team will come under increasingly close inspection. Mr Smith laughs off the suggestion that the easy part of his shadow Chancellorship may be behind him. But the gaps in Labour's economic policy have served the party well so far. They could become liabilities, especially if the Government regains its composure.

Exchange Rate Mechanism

Eliminate all exchange controls before entry

By Lord Joseph

I wish to put forward an unfashionable argument – that we should be cautious about entering the Exchange Rate Mechanism (ERM). The arguments said to be in favour of entry on the Madrid conditions are familiar. I doubt whether the reasons for caution are as widely perceived.

Joining the ERM could appear to lead us one step nearer the European Monetary Union (EMU), which – even though it might ultimately be sanctioned not by unacceptable and binding budgetary rules *but by market disciplines* – would be widely opposed in this country.

It is not the ERM which has recently provided for some countries' relative exchange rate stability: it is the determination shown by the governments concerned to pursue prudent economic policies. Non-ERM states have matched or more than matched their performance.

The ERM itself is neither a cause of good economic management nor a cure for mismanagement. Our need, whether we are in or out of the ERM, is to get and keep inflation down at as good a growth rate as is compatible with that objective.

Moreover there are signs that the D-mark – the linchpin of the ERM – may become less solid. The Bundesbank's independence has been eroded by Chancellor Helmut Kohl's intervention over the rate of exchange between the D-mark and the East German Mark. And the outcome of that intervention on the buying power of the D-mark has yet to be seen.

Is it, I wonder, realised that if we were in the ERM and interest rates came down, we might fear that consumption would rise more than domestic supply and inflation re-ignite? We might want at some stage to raise interest rates to avoid the danger. There could then be a conflict between ERM and domestic desiderata.

What perhaps is not widely understood *is that* although overt exchange controls have largely been eliminated, a wide range of covert exchange controls remains. My authority for this assertion is the published analysis by Mr Graham Bishop of Salomon Brothers.

The bulk of the funds for long-term investment is in the savings institutions – mutual funds, pension funds and insurance companies. Regulations in each country control the assets that these organisations are free to buy.

These regulations – often obscure – may be genuinely prudential, as a safeguard against some sort of risk. But limits on total freedom of investment, including international investment, may be significantly greater than can be *so justified. It seems that such* excessive restrictions exist even in West Germany and certainly in France and Italy.

In the UK we have our own restraints – in some cases no doubt beyond the prudential.

It is not the ERM which has recently provided for some countries' relative exchange rate stability: it is the determination shown by the governments concerned to pursue prudent economic policies

For instance, a recent budget extended tax privileges for "unit trusts investing mainly in UK equities." But we have far fewer and smaller restraints than exist on the Continent.

Such restrictions in the investment scope of many financial institutions have the same economic effect as the non-tariff barriers that obstruct trade liberalisation; they are in effect exchange controls – covert rather than overt. Without liberalisation of capital movements subject only to genuine prudential requirements, a necessary *component of the Madrid* conditions will be missing.

Restraints on overseas investment by individuals and institutions distort exchange rates. Suppose country A runs a trade deficit with country B, but country B forbids or limits outside investment into country A; such restraint would prevent a capital outflow that could offset or even eliminate the deficit – and the currency of a country denied such investment weakens.

Perhaps one reason why there has been relative exchange rate stability since the overt exchange controls have been abolished is that the covert exchange controls have been left in place and are effective.

We need, I believe, to see the *elimination of covert exchange* controls as part of the Madrid conditions.

It is true that the European Commission recognises the problem and has issued and will be issuing directives: but each such directive has to be enacted into legislation in each member country and such legislation may or may not comply with the recommendations of the directive.

Moreover the target date is not until January 1 1993, though realistically the implementation of all the liberalisation measures by means of national enabling legislation may, even if no snags develop, not be before 1995.

Do not believe that the sums involved are small. If German insurance companies were more free than now and decided to put 10 per cent of their long-term investment abroad, that total would represent a capital stock outflow of about DM50bn – more than enough to influence exchange rates in the EC. Even though West German savers are cautious, they seem, when given the chance, to invest abroad significantly. If the restrictions on other forms of West German and on all the French and Italian institutions are taken into account, the elimination of effective exchange controls is far from complete.

So for these reasons I urge the Government to be cautious about entering the ERM. We have anyway to concentrate on getting inflation down and that would not be helped by the ERM.

Lord Joseph of Portsoken was an MP until 1987 and held several ministerial positions in Conservative governments.

LETTERS

Boosting private capital flows to debtor nations

From Mr Frank Vogl.

Sir, One year after the launch of the Brady Plan it is evident that official strategies neither recognise commercial banking realities, as Citibank's Mr William Rhodes noted ("Reworking the Brady Plan: new money, old obligations," May 4), nor place sufficient priority on stimulating direct investment.

The strategy for the 1990s must be based upon the macro-economic reforms encouraged by the International Monetary Fund and World Bank, with much stronger supplemental action to boost private capital flows. Here there must be a healthy balance between debt and equity.

On the debt front the Brady Plan should be beefed-up to encourage the banks to continue lending to the debtors and to deploy official resources more effectively. Tax and bank supervisory rules need modification to serve effectively as incentives to the banks to take sharper losses on current debts, while also providing some new money. Then, bridge finance from the IMF should be available to countries with fund programmes to assist them to reduce their arrears to the banks.

There also needs to be greater flexibility by the IMF and World Bank in their use of resources earmarked for debt and debt service reduction.

Preoccupied with financial issues the Group of Seven and the boards of the IMF and World Bank have devoted too little time to finding ways to boost foreign equity investments into the debtor nations. This issue must be made a much higher priority.

Actions should include a swift strengthening of the capital of the International Finance Corporation and the strong encouragement to Latin nations to join the Multilateral Investment Guarantee Agency.

The World Bank should launch private investment *structural adjustment loans.* These would be fast-disbursing loans made on condition that borrowers reform rules, regulations, taxes and assorted laws that serve as disincentives to foreign investors.

Surprisingly specific loans for this purpose do not exist at this time, with these matters often wrapped into much lower priority World Bank assistance programmes.

But there also has to be direct encouragement to investors, just as there is to the bankers. The Bank Group could establish a capital investment fund (financed from World Bank funds, plus contributions from export-import banks of Group of 10 countries) to provide guarantees, special long-term loans and other incentives to foreign investors *that make significant new commitments* in debtor nations.

The debtor nations have lost a decade of development and the 1990s may be still rougher unless there is bolder action by public authorities on both the debt and the equity fronts.

Frank Vogl,
President,
Vogl Communications,
5132 Loughboro Road, NW,
Washington, DC

Barclaycard: cardholders' options explained

From Mr Ken Bignall.

Sir, John Mansfield (Letters, May 12) expressed concern about two issues arising from the announcement by Barclaycard that it is to introduce a charge of £8 on the card.

Allow me to set his mind at rest on both matters.

Barclays customers who use their Barclaycard only as a cheque guarantee card will not be expected to pay the fee if they do not wish to.

They will have the choice either of applying for a Barclays Connect card, which will remain free and which serves as a cheque guarantee card, Visa debit card and cash card, or of retaining their Barclaycard and paying the fee.

Authorised users of Barclaycards – for example husbands or wives of cardholders – will receive their card free, unlike similar Lloyds Access customers.

Both they and the principal cardholder will also be able to apply for the newly launched Barclaycard Mastercard, which will be issued free to existing Barclaycard holders.

A case of buy one, get one (or three) free.

Ken Bignall,
Chief Executive,
Central Retail Services Division,
Barclays Bank,
54 Lombard Street, EC3

Taxing logic

From Mr Andrew Martin.

Sir, Can any of your readers explain the Government's logic in giving tax relief on medical insurance for the retired over-60s but, at the same time, retaining it as a taxable benefit for those over 60 still working and possibly on similar incomes?

Andrew Martin,
Bailey House,
Barnsfold Road,
Horsham, West Sussex

London's beggars: averting the eyes from a painful reality

From the Rev Kenneth Leech.

Sir, Martin Dickson's report that beggars are to be banned from New York underground and main line stations ("Beggars to be banned," May 12) has a more direct relevance to conditions in London than do many of the supposed insights from the United States.

His account of a growing "Third World air" to parts of the city, of the "increasingly sharp polarisation . . . into haves and have-nots" and of the increasing numbers of beggars all apply to London also.

The increase in young beggars in inner London is not simply a by-product of homelessness. When I founded Centrepoint Soho, the all-night centre for young homeless, 21 years ago, we were witnessing a significant increase in the numbers of young homeless, with a marked indication that more and more would be economic refugees from Scotland and the north of England. That process has continued and worsened.

But we saw few young beggars in those days. The increase has been both rapid and dramatic.

In recent years the evidence of a sharp contrast between the very rich and the "comfortable" and the increasing numbers of the poor in inner London has been mounting. Today only senior members of the government would deny it.

Those who have worked in the poorer districts of London and among the homeless have been in no doubt of this for years and view with dismay the ritual denials which have come from time to time from ministers. In the last few weeks government statistics have yet again been shown to understate the seriousness of the problems.

What is particularly worrying is not simply the growing gulf between rich and poor, but the evidence of a new polarisation of consciousness, far worse than that which prevailed in the 19th century before the publication of The Bitter Cry of Outcast London.

Then there was perhaps some basis for the claim of ignorance: today there is rather a deliberate refusal to believe, a conscious averting of the eyes from the painful reality. The erection of the fortress around Downing Street is a sacrament of the new structural blindness.

In one respect London differs markedly from New York. The bulk of young beggars and the bulk of the "underclass" are not black. Yet the warning signs are clear. As many black people have begun to ascend the ladder of affluence and to assume important roles in business and the professions (though more slowly than should have happened), the tendencies towards the entrenchment of deprivation in districts of residential segregation have become sharper and more ominous. The gulf between the black bourgeoisie and the black poor has become wider, as it has long been in the population as a whole.

Yet Britain continues to "learn" from the US in all those areas of social policy where that country has most conspicuously failed, ignoring its successes and the warnings of its informed commentators.

Do we have to wait for another "bitter cry" before the conscience of the nation is aroused to the dangerous situation we have created?

Kenneth Leech,
Director,
The Runnymede Trust,
11 Princelet Street, E1

FINANCIAL TIMES
Wednesday May 16 1990

HONG KONG CORPORATE EXODUS ACCELERATES

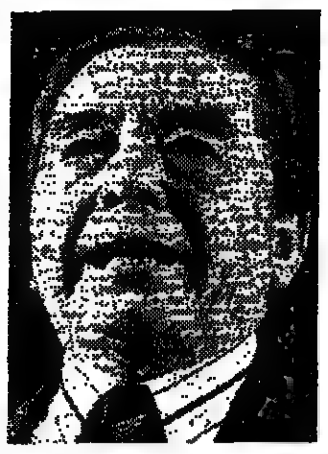
YK Pao to base store group in Bermuda

By John Elliott in Hong Kong

SIR Yue-Kong Pao, one of the world's biggest shipowners, last night became the first top-ranking Hong Kong Chinese tycoon to move one of his companies' legal domicile out of the British colony when his group announced plans for the Lane Crawford department store business to be incorporated in Bermuda.

The move was publicised as part of an internationalisation of Lane Crawford, which has development plans in Singapore and elsewhere. But it was widely seen in Hong Kong as a significant expansion of a corporate migration as companies prepare for the colony's return to Chinese sovereignty in 1997.

With annual turnover of about HK$1.4bn ($180m), the high profile Lane Crawford is not regarded as one of the most dynamic parts of Sir Y.K.'s World International and Wharf Holdings property to transport quoted empire. It will therefore be assumed that it is being used to prepare the way for more of his companies to be incorporated in Bermuda later.



YK Pao: leading the way out

The migration started in 1984 when Jardine Matheson, the colony's leading British-controlled "Hong" trading company, moved its domicile to Bermuda. Last Friday Jardine took the next logical step by announcing share listings in London and Luxembourg.

At least 90 quoted companies – 30 per cent of the total listed on the local stock exchanges – have moved their domicile to Bermuda and elsewhere since 1984. But they have only been second rank Chinese and other smaller business groups, including the Lo family's Great Eagle property company and the Lau brothers' Evergo Holdings and China Entertainment.

The board of Hutchison Whampoa has considered moving along with other companies controlled by Mr Li Ka-shing, who is ranked alongside Sir Y.K., but no decision has been made.

Lane Crawford Holdings, which is listed in Hong Kong, is about 60 per cent owned by World International through Wheelock Marden. The whole group is headed on a day to day basis by Mr Peter Woo, one of Sir Y.K.'s sons-in-law, who is looking for ways of diversifying out of Hong Kong.

Sir Y.K. has been rumoured for some time to be in ill health, but he is closely involved in all major decisions and would have instigated the Bermuda move, or would have had the ability to stop it.

Mr John Hung, finance director of Wheelock Marden, last night rejected suggestions that other World and Wharf companies would go to Bermuda. He said that Lane Crawford was "unique" because of its international trading and it needed to broaden it base and image, partly to attract international marketing executives.

The company runs five up-market department stores in Hong Kong which have been overshadowed by an invasion of Japanese competitors. It also runs 32 speciality shoe and leather goods shops and other boutiques with names such as Bruno Magli, Selvatore, Goldphiel and Ferragamo which has recently opened three outlets in Taiwan.

The Singapore plan involves opening a store in 1993 in a development being carried out by the group for its Omni and Marco Polo international hotel business. A store is also being considered for Bangkok.

S Korea demands apology from Japan

By Robert Thomson in Tokyo and John Ridding in Seoul

THE JAPANESE Government is highly embarrassed by South Korean demands for a formal apology for colonising the Korean peninsula earlier this century and for Japan's treatment of Korean citizens.

President Roh Tae Woo of South Korea is to visit Tokyo later this month. At the centre of the controversy is whether Emperor Akihito or Mr Toshiki Kaifu, the Japanese Prime Minister, should apologise to President Roh.

South Korea has argued that such a statement is needed before relations can enter a "new age," but Japanese officials said yesterday that Emperor Akihito would breach his constitutional role by publicly apologising for the colonisation.

However, the Emperor last year apologised to Li Peng, the Chinese Premier, for Japan's wartime aggression against China. Peking has consistently criticised Japan for glossing over its brutality during the Second World War.

When Mr Chun Doo Hwan, the former South Korean President, visited Tokyo in 1984, the emperor at the time, Hirohito, delivered a vague apology which Seoul found unsatisfactory, but which caused controversy in Japan where there has been reluctance to admit wartime guilt.

Emperor Hirohito told President Chun at a welcoming banquet: "It is indeed regrettable that there was an unfortunate past between us for a period of time during this century, and I believe it should not be repeated again."

A special aide to President Roh, Dr Lee Hong Koo, said in Tokyo yesterday that the 1984 statement was "so refined" that most South Koreans could not understand the meaning. He suggested that the Japanese Government "could easily find a more apt expression."

But the South Korean media has focused on comments by an unidentified senior member of Japan's ruling Liberal Democratic Party who reportedly said there was "no need to prostrate ourselves or bow down and kneel" by asking the Emperor to make an apology during the visit from May 24 to 26. South Korean government officials said in Seoul yesterday that they were seeking a "clear and formal apology from Japan" concerning what they describe as an "unfortunate history."

A Foreign Ministry official said the apology need not necessarily come from the emperor, but should come from someone who "represents all Japan."

The demand for an apology reflects the deep resentment of Japan's colonial rule between 1910 and 1945 and its treatment of Korean residents in Japan, many of whom are descendants of Koreans conscripted for forced labour during the Second World War.

Under pressure from Seoul, the Japanese Government has relaxed some controls on third generation Koreans during talks in the past month. But the South Korean Foreign Ministry official said they were not fully satisfied with the agreement, and further concessions, such as the extension of re-entry permits, should also be applied to first and second generation Koreans in Japan.

Portugal calls for end to S Africa sanctions

By Patrick Blum in Lisbon

PRESIDENT Mario Soares of Portugal yesterday called for an end to sanctions against Pretoria and argued that the policies being pursued by President F.W. de Klerk were positive and deserved international support.

"The time has come to support President de Klerk's policy of reforms," Mr Soares said at a joint press conference marking the end of a two-day visit to Lisbon by the South African President.

"We should show the European Community that the sanctions against South Africa no longer apply given the political changes in the country."

He said Portugal would extend its support through the "European Community and through all the international areas where we have access."

The European Community's policy on South Africa is due to be discussed at a summit in Dublin in June. Mrs Margaret Thatcher, the British Prime Minister, has already lifted a few minor sanctions.

Mr de Klerk arrived in Portugal after visits to France and Greece, as part of a nine-country European tour designed to canvas greater international support for his reform programme.

On the question of sanctions, he said these were becoming "irrelevant because of what South Africa is doing."

Mr de Klerk has repealed several apartheid laws since he became President in September.

He has also legalised the African National Congress (ANC), freed ANC leader Nelson Mandela from prison and started exploratory talks with senior ANC officials on a political settlement.

Mr de Klerk hopes to persuade a majority of leaders of the EC before the Dublin summit that it is time to offer some positive encouragement instead of persistent criticism.

The Portuguese Government is one of the most sympathetic in Europe towards De Klerk's reform drive.

Mr Aníbal Cavaco Silva, the Prime Minister, said he was impressed by the plans to end white domination. He said he would urge EC leaders to re-evaluate their policy towards South Africa and start lifting the sanctions imposed on South Africa.

"We are in favour of removing some sanctions, eventually all sanctions, but that is a matter for the European Community," he added.

"He (De Klerk) has done a lot, though from a European point of view it may not be everything. The facts must be re-examined, not with passion, but in a serious way."

SIB investors to get 'modest' payments

By Sue Stuart in London

THE MANX Government intends to make ex gratia payments to investors who lost money when the Savings and Investment Bank, based on the island, collapsed with £42m ($71m) debts in 1982.

Mr Miles Walker, the Isle of Man's Chief Minister, said yesterday he planned a "scheme of modest proportions."

He made it clear that the payments scheme would be aimed primarily at benefiting smaller depositors.

The bank had 3,000 creditors, many of whom were small depositors who lost their savings.

He stressed that while there was no legal requirement for the Manx Government to compensate depositors, recent disclosures showed the island's banking supervision in 1982 to have been flawed. Last week, the Manx Government published a previously confidential report by two Bank of England officials which was highly critical of the regulatory system at that time and the lax way it was administered.

Mr Walker, who hopes to lay the scheme before Tynwald, the Manx parliament, for its approval before the summer recess, said he could not give any indication of the amount of the payments.

Ten depositors have issued writs against the Manx Government alleging negligence.

One of these, Mrs Anita Loynd who lost £44,000, said if she was not reimbursed in full she still intended to proceed with the legal action.

Baltic demonstrations

Continued from Page 1

than neighbouring Lithuania, has caused despondency among western diplomats in Moscow.

They believe that he is closing off possible avenues to compromise in the Baltic republics, leaving them little option apart from outright confrontation.

Mr Gorbachev's announcement surprised Latvian leaders, who had earlier on Monday been planning to send a delegation to open talks in Moscow with Soviet authorities yesterday afternoon. The talks have now been postponed.

In the Latvian parliament, Mr Ivar Godmanis, the republic's Prime Minister, told a news conference that he "had hoped the Soviet authorities' reaction to Latvia's move would have been different."

However the Soviet leader's hard-line tactics may be paying off in Lithuania, where the parliament yesterday agreed, after a stormy debate, to go into secret session today to work out a package of negotiating terms to present to Moscow.

The republic has been under a virtual economic blockade by Moscow for three weeks and lack of oil could bring virtually all industry and transport to a standstill before the end of the month, according to Lithuanian officials.

US may delay trade pact

Continued from Page 1

as is legally required, in the current Lithuanian situation. The US Senate has already approved, by 73 votes to 24, a non-binding resolution opposing any trade agreement with Moscow as long as Moscow's economic embargo lasts.

In contrast to the initial US welcome for the agreement, Mr Marlin Fitzwater, White House press secretary, has said the trade deal remains "an open question," adding that Mr Bush "shares some sense of concern" about how the trade deal relates to developments in Lithuania.

Any slowdown in the bilateral trade treaty will not affect the expected decision today by the council of the General Agreement on Tariffs and Trade to admit the Soviet Union to observer status. The US has urged the move as a tangible sign of American interest in bringing the Soviet Union into the world economy.

The bilateral trade treaty would grant Soviet goods Most Favoured Nation status for the first time since 1951. This, the lowest rate which the US sets for any country, would reduce tariffs to an average of 5 per cent from the present 40 per cent.

Before this could take effect, the Bush Administration has to waive the Jackson-Vanik Amendment by certifying that Soviet citizens can leave their country freely. This in turn depends on the passage of a draft emigration law now before the Soviet legislature.

The draft trade agreement would make it easier for US companies to do business in the Soviet Union.

● China will lose $16bn in exports to the US if Washington revokes its preferential trade status, Shen Jieren, a deputy foreign trade minister, warned, Reuter reports from Peking.

Withdrawing the trade status might backfire by reducing US exports to China, and jeopardise China's fragile policy of opening to the outside world.

WORLDWIDE WEATHER

[illegible]												

C–Cloudy, Dr–Drizzle, F–Fair, Fg–Fog, H–Hail, R–Rain, S–Sunny, Sl–Sleet, Sn–Snow, T–Thunder.

Paris warns Brussels it will not reclaim aid to Renault

By William Dawkins in Paris

FRANCE will refuse any European Commission demand to reclaim more than half of the FFr12bn ($2.16bn) state debt write-off accorded to Renault, Mr Roger Fauroux, the Industry Minister, warned yesterday.

"For the moment, the French front is solid," he said in an interview with the Financial Times. He was speaking a week before Brussels is expected to try to decide on Renault, a symbol of French industrial policy and the cause of one of the European Community's biggest and most sensitive state aid disputes.

If asked to reclaim the cash, "we would say no . . . I hope they won't ask us for that, but it would be absurd," said Mr Fauroux. His remarks confirm that France and the Commission have driven themselves into deadlock as the end approaches in the wrangle over Renault's debts which has lasted more than two years.

Mr Fauroux pointed out that he had the full backing of the Socialist Government, and the main centre-right opposition parties.

This latest twist in the dispute comes amid warnings from Mr Raymond Lévy, Renault's chairman, that the group is beginning to feel the long-expected downturn in the European car market. French car demand slipped by 6.5 per cent last month, as against April 1988, a figure which "constitutes a serious warning shot," Mr Lévy said yesterday.

Renault, its suppliers and sub-contractors should expect further job cuts, he warned. "The good years are behind us . . . The trading results of Renault and perhaps other manufacturers will be less good than in 1989. We have already started to feel it in the first four months," he said.

Sir Leon Brittan, the Competition Commissioner, is understood to believe that Renault has not made enough capacity cuts to justify the full debt write-off, though he needs the backing of the full Commission to ask for repayment. French and Brussels officials believe he could press for repayment of FFr6bn - FFr8bn.

The Commission had allowed the previous Government to restructure Renault's crippled balance sheet on condition that it be changed from a state-guaranteed *régie* (which cannot go bankrupt) into a normal state-owned company, and that it cut 15 per cent of car production capacity.

The car group changed its statutes last month, to clear the way for its alliance with Volvo of Sweden, but has so far fallen well short of the Commission's demands on production cuts.

US 'should attack air terrorists'

Continued from Page 1

saying its security procedures at Frankfurt, where the doomed flight originated, were faulty before the bombing – and nine months thereafter.

However, the report concludes that while tighter baggage checks might have prevented the destruction of Pan Am Flight 103, it could not be certain "that more rigid application of any particular procedure actually would have stopped the sabotage of the flight."

The report's introduction states that the US civil aviation system "is seriously flawed and has failed to provide the proper level of protection to the travelling public."

But Congressman John Paul Hammerschmidt, a Republican from Arkansas and member of the panel, said criticism was intended to focus on past security flaws. "Let me emphasise that isn't true right now . . . major improvements have been made."

Senator Alfonse D'Amato, a New York Republican, panel member and outspoken advocate of tough action against terrorists, said the commission could not offer any conclusions on who was responsible for the bombing or which countries might have lent their support.

The report also criticises of the US State Department for failing to react compassionately to the families of victims and for its handling of threats against Pan Am received before the bombing.

A State Department spokesman said in response that for the past few months the Government had provided the same warnings to the travelling public as had been passed on to US officials.

THE LEX COLUMN

A heady brew from Allied

Notwithstanding yesterday's 3 per cent rise in its shares, after its annual results, Allied-Lyons begins to look like a company which needs a breather. Like other stalwarts of the British beerage, the group is living up to its historic reputation for riding out economic squalls, judging by the 14 per cent rise in Allied Breweries' trading profits. Nor is it sensible to expect it simply to stand still. Bass's sale of Crest Hotels to THF should have forcibly reminded the market that these days the drinks sector's major companies are inescapably asset-traders too. Nevertheless, the £2bn of net debt is a lot for Allied-Lyons to handle; and though taxable profits rose 12.5 per cent last year to £565m, its balance sheet gearing more than doubled to 78 per cent.

In Allied's case, the buying and selling has evidently been well done, from its Hiram Walker deal through to Whitbread Spirits and Dunkin' Donuts in the last six months. One of the cheering features of yesterday's figures was that by April, its rationalisation of the Beefeater gin business was mostly complete.

But even after allowing for the sale of Embassy Hotels, the proceeds of which should be in the bank in July, Allied will still be left with about £1.8bn of borrowing. And strong though its operational cash-flow is, the group is still talking about capital spending in 1990-91, roughly on a par with last year's £370m. Not that Allied is looking dramatically over-valued; at 5 per cent, the historic yield is bang in line with the market. But with uncertainties still surrounding its reaction to the UK brewing industry's regulatory shake-up, the case for any re-rating is a long way from being proven.

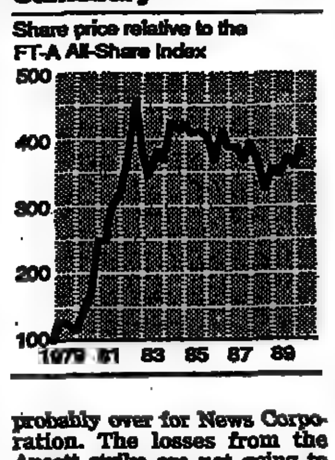
News Corporation

Mr Rupert Murdoch is not in the same distressed state as Australian entrepreneurs like Mr Alan Bond, or even Mr John Elliott. Nevertheless, for an organisation which boasts assets of over A$20bn and annual revenues of more than A$8bn, News Corporation is making very little money at the moment. Third quarter equity accounted profits fell 79 per cent to A$11m, and if you add in abnormal items the company made a loss. Meanwhile, the interest bill continues stubbornly to clock up around A$250m a quarter.

If global interest rates really have peaked, then the worst is

Sainsbury

Share price relative to the FT-A All-Share Index



probably over for News Corporation. The losses from the Ansett strike are not going to be repeated and if Sky TV can continue to reduce its losses at its current rate, then it may not be such a financial millstone after all. Presumably, the shareholders in rival BSB are equally concerned about avoiding a price war in the UK satellite TV market.

At around A$10 per share, the group is selling at close to 12 times prospective earnings, but the multiple looks far less demanding, on the assumption that the group's profits are going to bounce back in 1991. Unlike other cash-strapped entrepreneurs, Mr Murdoch still seems able to sell assets at a premium. As long as he can continue to do so then the shares should be underpinned at current levels.

J Sainsbury

Yesterday's 22 per cent increase in earnings per share was a timely blow for Sainsbury in the long battle with Tesco for investors' favours. The age-old argument is that Tesco has greater scope for improving margins as it catches up with Sainsbury. But Sainsbury is still determinedly pushing margins ahead and its compound earnings growth over the past five years, during which its shares have consistently underperformed Tesco's, is only marginally lower – 24.6 per cent versus 26.1 per cent.

Both chains are following the strategy of replacing small supermarkets with superstores. The latter provide the impetus for volume growth and also boost margins because of economies of scale and improved product mix. As yet, there is no evidence of consumers trading down in food and indeed the retailers are benefiting from a reduction in eating out. Expenditure on food is still around a historical low as a percentage of consumers' shopping baskets. Add in the sector's defensive qualities and it is clear why Sainsbury can trade on a 20 per cent or so premium to the market, assuming pre-tax profits of £485m-£490m this year.

However, superstores do imply increased risk since they entail heavy development costs at a time when other overheads – notably wages – are escalating. In any case, margin improvement for Sainsbury may become more difficult over the next few years as the burden of rental income increases, following the sale and leaseback of several large stores. But the best argument for Sainsbury's ability to cope with the risks is its success to date in its diversifications, notably those two graveyards of modern retailers, the US (Shaw's) and DIY (Homebase).

THF/Crest

It is easy to sympathise with the stock market's initial reaction to Trusthouse Forte's £300m acquisition of the Crest hotel chain. The £63,000 per room THF is paying looks decidedly cheap by comparison with some of the prices that were being paid twelve months ago and raises further doubts about the price financially strapped groups such as Mecca can expect for their hotels. Bass has spent a lot of money on Crest, there is not too much overlap with existing THF hotels, and there should be no earnings dilution. The bulk of the properties will be sold and leased back, minimising the balance sheet strain on one of the industry's more conservative groups.

That said, Bass is selling its hotels at 23 times earnings, and reducing its gearing by a sizeable amount. By contrast, THF is increasing its already high exposure to the UK hotel industry at a time when demand is softening. It is right to concentrate on the business it understands best. But with 85 per cent of its profits being generated in the UK, it would have made far more sense to follow the example of Queens Moat Houses and expand more aggressively on the Continent. The UK hotel market may be fragmented, but there must be a limit to how much bigger THF can grow its core UK hotel operations, before it begins to encounter real consumer resistance. The price THF is paying cannot be criticised, but its strategy continues to show a lack of imagination.

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INSIDE

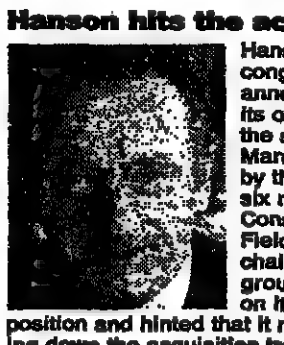
Breweries lap up the good news

A round of good results were welcome at diversified brewing groups Allied-Lyons and Vaux of the UK, and South African Breweries. Allied-Lyons satisfied the market with a pre-tax rise of 12.5 per cent for 1989-90, while Vaux reported interim pre-tax profits up 19 per cent. South African Breweries announced a 22 per cent increase in trading profits. Pages 32,29

A difficult beast to tame

Rampant insider trading, an antiquated system and extremely slow settlement procedures — the Milan stock exchange is a beast that is proving hard to tame. "Because the Borsa looks like a stock exchange, people think it is a stock exchange. Just as one might look at a black panther and think it was a black cat," one Italian banker remarked two years ago. But since then attempts to clean up the exchange have met only with delays. Page 31

Hanson hits the acquisition trail

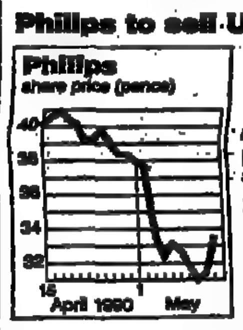


Hanson, the UK-based conglomerate, announced pre-tax profits of £570m ($952m) in the six months to end-March, a result boosted by the inclusion of a full six months results from Consolidated Gold Fields. Lord Hanson, the chairman (left), said the group would capitalise on its strong financial position and hinted that it might even be heading down the acquisition trail. Page 33

Swimwear buy-out

An $85m leveraged buy-out is being mounted for Speedo, one of the largest swimwear and sportswear companies in the US. As part of the deal, Pentland, the UK consumer goods group linked to Reebok of the US, will emerge as a significant shareholder in Speedo. Page 28

Philips to sell UK arms group



Philips, the troubled Dutch-based electronics group, is understood to be close to a deal which could boost its sagging profits. It is in talks to sell its British defence subsidiary, MEL, to Thomson-CSF of France, Europe's largest military electronics manufacturer. David White reports on the sale of a profitable exception in an otherwise troubled Philips defence division. Page 31 33

Chief price changes yesterday

FRANKFURT (DM)				PARIS (FFr)			
Rises				**Rises**			
Industriekredit	285	+	9	Hachette	446	+	16
Leifheit	730	+	18	Lafarge	463.9	+	17.9
Falls				**Falls**			
Altana	440	–	10.5	CCF	244.8	–	6.8
Daimler-Benz	632	–	14	Elf-Aquitaine	682	–	9
Mercedes Hld	685	–	16	Peugeot	843	–	25
Rheinmetall	422	–	18	St.Gobain	610	–	9

NEW YORK ($)				TOKYO (Yen)			
Rises				**Rises**			
Federal Nat Mor	38¼	+	⅜	Hitachi Chem	1900	+	200
IBM	114¾	+	⅝	Hokuetsu Paper	1250	+	140
Nike	74¼	+	2½	Ono Kaiun	2050	+	250
				Nakayogoshi	1820	+	170
Falls				**Falls**			
AT&T	42⅛	–	⅜	Sakurax Seal	1110	–	140
Philip Morris	44⅜	–	⅞	Taikoku Sen-I	1680	–	130
News Corp	15⅝	–	⅝				

New York Prices at 12.30pm.

LONDON (Pence)							
Rises				United Biscuits	335	+	6
Allied-Lyons	453	+	15	Whitbread 'A'	389	+	7
Blenheim Exhib	880	+	25	**Falls**			
Burton Group	170	+	5	BICC	405	–	10
Carlton Comms	630	+	10	Border T.V.	37	–	41
Heywood Williams	276	+	6	Glaxo	813	–	16
McAlpine	327	+	8	Huntingprint	46	–	10
Metro Radio Gp	147	+	11	Radio City 'A'	308	–	25
Reckem Env.	470	+	25	Sedgwick Group	292	–	15

Stagnant earnings at Daimler-Benz

By David Marsh in Stuttgart

DAIMLER-BENZ'S adjusted earnings per share fell to DM51.05 last year from DM57.85 in 1988 *even though extraordinary* accounting changes quadrupled the vehicle and aerospace group's consolidated net profits to DM6.8bn ($4.1bn).

Daimler is still plainly suffering from growing pains caused by its move into new areas of high technology as well as exchange rate difficulties affecting exports in its mainstream cars business.

Mr Gerhard Liener, board member responsible for finance, said yesterday that without "special factors," group net profits last year were about DM1.7bn, as in 1988. Daimler is maintaining its dividend at DM12.

At the company's annual press conference yesterday, both Mr Liener and Mr Edzard Reuter, the chief executive, were unusually reluctant to give earnings forecasts for this year.

The finance chief said the company was "running along the same trend as last year." Mr Reuter made clear the company's concern about a possible fall in defence orders due to the military changes in Europe, but emphasised that Daimler had not assumed a big increase in armaments activities when it took its majority stake in MBB, Germany's largest aerospace group.

Including MBB, Daimler group turnover this year is expected to rise to DM85bn, of which DM6bn will come from MBB. This compares with DM76.4bn last year, before the acquisition. First-quarter 1990 turnover was DM19.5bn, with no comparable figures available for last year. Mr Liener admitted Daimler's earnings had been stagnating since 1985. The upheaval in Daimler's structure – sales have doubled since 1982 – has had an inevitable effect on results, he said.

According to earnings figures on the basis of the German Association of *Financial Analysts* standards, group earnings last year were only DM2.4bn against DM3.1bn in 1988.

Mr Reuter said turnover was expected to reach DM100bn within five years. Mercedes-Benz sales – making up 72 per cent of turnover last year – were likely to fall to around 65 per cent as growth grew above average in the AEG electrical sector and in Deutsche Aerospace.

Last year's rise in group profits was due to a switch to less conservative accounting procedures for pension fund provisions and inventory valuation, releasing DM6.5bn. This was partly offset by DM1.4bn in new provisions for risks relating to aerospace restructuring and exchange rate problems on car exports caused by the strength of the D-Mark.

Most of the freed funds were switched into boosting reserves for retained earnings, which rose to DM11.2bn from DM7.5bn. Including new funds of DM2bn from an equity capital increase last autumn, Daimler's capital resources rose last year to DM17bn from DM11.3bn in 1988.

News Corp plummets 74% after Sky losses

By Raymond Snoddy in London

MR RUPERT Murdoch's News Corporation yesterday announced a sharp fall in operating profits for the nine months to March largely because of losses at Sky Television and the effect of a seven-month pilots strike at Ansett Airlines in Australia.

Operating profits after tax were down by 74 per cent – A$121.17m ($93m) compared with A$467.1m in the same period last year.

The result followed six-month profits of A$152m.

"In spite of the heavy cost of increased borrowing for major investments in new printing facilities and the worsening advertising conditions in all markets, profits would have exceeded last year's record but for Sky Television and Ansett," the company said yesterday.

Sky losses since September 1989 were put at A$179m although News Corporation said the losses at the four channel satellite television stations were coming down as the number of viewers and subscribers increased. Sky Television believes it is now available to 1.4m homes in the UK and Ireland and says that 526,000 homes have subscribed to Sky Movies, the pay service.

Net interest charges over the period increased from A$368.4m to A$697.48m.

Group turnover over the period increased by 14.4 per cent from A$5.5bn to A$6.3bn.

For the three months from December the operating profit, after minority interest but before abnormal items, was only A$11m compared with A$52m for the same period last year.

Stockbrokers ANZ McCaughan said yesterday that the News Corporation results were broadly in line with expectations. They added that the underlying result combined with plans for asset disposals – a float of a minority of the company's Hong Kong interests and the sale of three book publishers – should "help set a platform for the shares."

ANZ McCaughan analyst Mr Terry Povey said yesterday: "The profit of A$11m is the lowest quarter figure for News Corporation for many years. But it was widely expected to be bad and the market will be looking for things to improve radically."

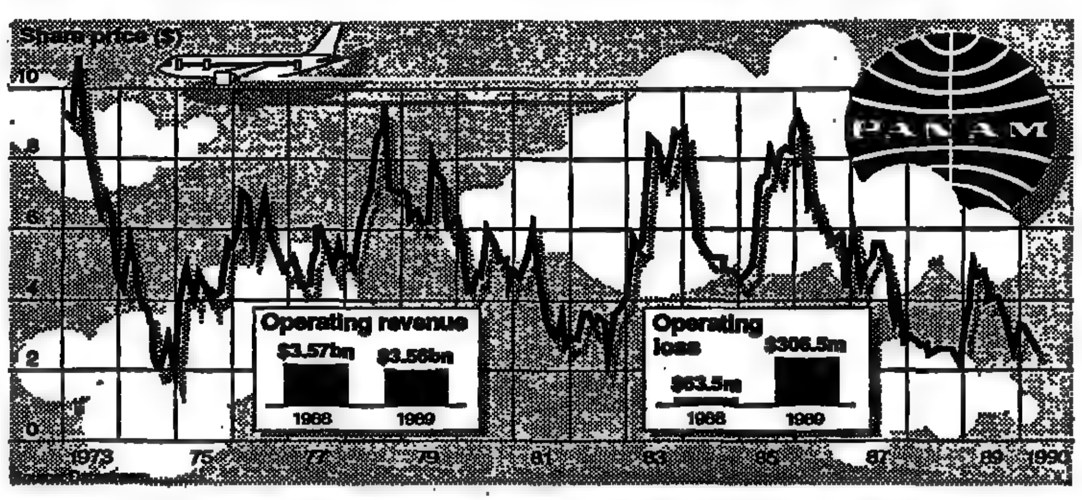
News Corp said Fox Broadcasting in the US was strongly improved and newspaper and printing operations in the Australia and Pacific basin contributed to an 8 per cent rise in the region's operating profit.

Lex, Page 24

Pan Am on a long haul to survival

The airline is looking for a partner, but investors are slow to come forward, says Paul Betts

PAN Am is searching urgently for a strong financial partner. Although the airline is beginning to recover from the devastating impact on its operations of the Lockerbie disaster in December 1988, its financial position remains precarious.



The company's annual report, published a month ago, does not beat about the bush. It states candidly that "the corporation has suffered recurring losses from operations and has a net working capital deficiency and a capital deficit that raise substantial doubt about its ability to continue as a going concern." It also says that in the longer term, "Pan Am must be part of a larger network in order to add additional traffic to support its route structure and must obtain additional financial resources to support its operations."

On the 46th floor of the impressive Pan Am building in New York, which the airline sold in 1985 to raise much-needed cash, Mr Thomas Plaskett, the airline chairman, seems on the surface at least, relatively relaxed and optimistic about the future. "Barring any unforeseeable surprises, we can be profitable on our own by 1991," he claims, adding: "I have never said Pan Am needs a merger partner to survive."

But he concedes that he is looking for a partner to help bolster the airline's balance sheet at the same time as maximising the value of its international route network. A link-up could take several forms. "Pan Am could acquire another carrier; another carrier could acquire Pan Am; a new investor could acquire both Pan Am and another carrier and achieve the necessary synergies; or Pan Am and a foreign carrier or carriers could establish a meaningful business combination," he explains.

However, investors have so far steered clear of the airline. Pan Am last year failed in its bid to merge with Northwest Airlines in the US and its negotiations to forge a strategic tie-up with KLM Royal Dutch Airlines came to nothing. Mr Plaskett says he is continuing to hold talks with several potential partners. But the problem is that they appear anxious to see if Pan Am can first dig itself out of its financial hole.

The airline, once the international flagship of the US air industry, has reported operating losses in nine out of the last 11 years. It will have lost almost $3bn in the last decade excluding one-time gains of more than $1bn from the disposal of assets including Intercontinental Hotels, its Pacific routes to United Airlines, and its famous New York Park Avenue skyscraper. In the first quarter of this year, the airline lost $190.7m compared with $151.1m in the same period last year. Its balance sheet showed a $529.7m negative net worth at the end of last year.

Pan Am's problems are in large part historical. For years the airline concentrated on its international operations, but its visionary founder, the late Juan Trippe, forgot that the US was the western world's biggest airline market. It was only in 1980 that Pan Am secured a large domestic network with its acquisition of National Airlines, the 11th largest US carrier.

But the acquisition of National coincided with the start of deregulation in the US, which opened up the domestic airline market. Moreover, the merger of National plagued by bitter labour problems proved extremely costly for Pan Am.

Mr Plaskett, a former American Airlines executive who had studied a possible merger of American Airlines with Pan Am in the mid-1970s, was brought in to try to salvage Pan Am in 1988.

"What I found when I came to Pan Am was a unique company in the airline business because of its heritage and what it had built up over 60 years under a different set of economic conditions," Mr Plaskett explains. "But the decade of the 1980s was terribly difficult for Pan Am. Our board saw that change was essential or the company would not survive," he adds. Mr Plaskett's game plan was to sort out Pan Am's labour problems first and then, in his words, "to return to basics." This essentially involved bringing back to profit the large international airline with a new management and streamlined organisation.

To do this, Mr Plaskett had to develop the financial resources of the company to try to bring back some financial stability through the sale of more assets. But unlike the past, he also reinvested about $220m to improve the Pan Am product, hiring about 2,000 flight attendants and crew members during the last two years and upgrading the airline's service to compete in the increasingly tough international marketplace.

The Plaskett recovery strategy appeared to be paying dividends. However, it was badly disrupted in December 1988 when Pan Am Flight 103 crashed over the village of Lockerbie in Scotland. "The tragedy had a devastating effect on Pan Am and the impact on our revenues was immediate and continued through most of 1989," says Mr Plaskett. Pan Am attributes the $250m increase in *its operating losses last year over* 1988 almost entirely on the Lockerbie disaster.

Mr Plaskett says Pan Am seriously considered scaling back its European services after Lockerbie, turning it into what he describes as "a substantially different airlines." But the company decided to persevere with its original recovery plan. "It made sense to continue. We did that by improving and refurbishing our fleet, improving our flight reliability and dependability as well as our inflight and airport services," Mr Plaskett explains.

Although Pan Am saw its traffic pick up by the end of last year, it still faces a long, uphill climb to secure its future. Mr Plaskett will continue to invest in building up Pan Am's Miami hub to capitalise on the airline's profitable South American network. He also sees the European single market of 1992 and the opening up of eastern Europe as providing Pan Am and its strong transatlantic route network with promising opportunities.

But the competition is intensifying both across the Atlantic and in South America with American Airlines openly challenging Pan Am's traditional position as the leading international US carrier. Moreover, Pan Am has few assets left to sell to help carry it through another patch of financial turbulence. It has already discussed selling its internal German airline services to Lufthansa and it could also consider selling its profitable US east coast shuttle service.

Mr Plaskett has recently launched a marketing campaign to revive the Pan Am image based on the slogan, "We're flying better than ever." But until he secures a strong partner for his airline, the financial community will continue talking about Pan Am's impeding collapse.

Trusthouse Forte acquires UK hotel chain from Bass for £300m

By David Churchill in London

TRUSTHOUSE Forte, Britain's largest hotel group, yesterday strengthened its grip on the UK hotel industry by buying the 43-strong Crest Hotel chain from the Bass brewing group for £300m *($504m) in cash.*

Bass had announced earlier this year that it was looking for a buyer for Crest. It said it wanted to sell the hotel chain to concentrate its resources on Holiday Inn hotels worldwide, following its acquisition of the US chain last year. Crest hotels were considered too small to convert into Holiday Inns in the UK.

THF had long been in the running for the Crest hotels, although it is understood it fought off a challenge for control of Crest from Accor, the French hotel group, which is keen to expand into the UK.

The deal was generally seen by the City last night as good for THF since the price of £300m represented an average cost per room of £63,000.

Bass, however, had expected to get more for the hotels which initially had included four in Holland. Bass said yesterday that, after selling the Dutch hotels, it could expect "aggregate proceeds this year from the Crest disposal programme to exceed £400m." Bass shares fell 9p to close at 988p. THF rose 2p to 259p.

The Crest hotels acquired by THF are three- and four-star hotels primarily for business travellers. They complement THF's existing 39-strong Post House chain, also aimed at business travellers.

The Crest chain was developed on the strength of its facilities rather than location, which means there is little, if any, overlap with THF's Post Houses which have been sited on main business routes.

THF, which had a total of 250 UK hotels before yesterday's deal, said it had not yet decided whether to merge the Crest hotels under the Post House banner. It added that it was not interested in the Dutch Crest hotels as it already had similar hotels in Holland.

Lex, Page 24

BNP to take full control of BAII

By George Graham in Paris

BANQUE NATIONALE de Paris (BNP), the leading French state-owned bank, is to take outright control of Banque Arabe et Internationale d'Investissement (BAII), and will inject FFr600m ($108m) of fresh capital to set the Paris-based consortium bank back on its feet.

BNP's decision comes after an attempt to recapitalise BAII last year *hit a number of snags.* The bank had planned to sell its $400m sovereign loan book to shareholders at face value, thus removing the obligation to provision them from the balance sheet. But institutions representing about 20 per cent of BAII refused to take up their portion of the risks.

BAII, set up in 1973 by a consortium comprising Arab financial institutions and non-Arab banks in equal measure, then considered a wide range of other solutions, including a new issue of subordinated debt.

As the single most important shareholder, BNP has now bitten the bullet by offering to buy out the other shareholders at a price yet to be fixed.

BNP will inject FFr600m of new funds, before opening the BAII capital to new Arab shareholders. It plans to keep at least 51 per cent itself. BAII officials said there were already six candidates, including mainly existing shareholders, for sums totalling well over the available 49 per cent.

The French state-owned bank will also take roughly half of BAII's outstanding commercial loan book, estimated at about $2bn, onto its own balance sheet, thereby reducing BAII's need for capital to meet the Cooke capital adequacy ratios.

BAII will continue, for the time being, to manage the loans for BNP, but the reshuffle will accelerate its move to refocus its activities away from commercial lending and back to its original vocation as a fee-earning merchant bankconcentrating on fund management, property finance and investment banking. BNP said the bank would continue to focus on the Middle East and North Africa.

Paris bankers said yesterday that the operation does not threaten to mire BNP in difficulties like those which surrounded its bailout in 1988 of Banque Internationale de l'Afrique Occidentale (BIAO), the ailing West African bank. BIAO has cost BNP FFr1.54bn in the two years since it stepped in, at the request of the French Government.

INTERNATIONAL COMPANIES AND FINANCE

Profit leaps at French investment group

By George Graham in Paris

EURIS, the investment group led by Mr Jean-Charles Naouri, has warmed up for its planned stock-market flotation next year by reporting net consolidated profits of FFr152m ($27.6m) in 1989.

The group said its consolidated profits were not comparable with 1988, but that unconsolidated net profits more than doubled to FFr57m in 1989 from FFr20m the previous year.

Euris said its net asset value, with listed holdings revalued to market price, totalled FFr3.2bn, or FFr3.5bn including the proceeds of outstanding warrants expected to be exercised by the end of this year.

The group, set up in 1987 by Mr Naouri, a close adviser of Mr Pierre Bérégovoy, the Finance Minister, has built up a considerable portfolio of investment holdings in companies such as Spep, Centenaire Blanzy and Imétal.

It has also built up a track record of participation in a number of leveraged buy-outs in France and abroad – Pembridge, Isosceles, Spontex – – and as a player in a number of France's most hotly contested stock-market battles, such as the assault by Mr Georges Pébereau's Marceau Investissement on Société Générale, the privatised bank, or Paribas's bid last year for the Navigation Mixte conglomerate.

Mr Naouri is interested in other opportunities in the UK, targeting companies which suffer from a market discount because of concern over the UK economy, but which also have a considerable proportion of non-British assets.

CERA in DBL loan provision

BELGIAN savings bank CERA Spaarbank has made a loan-loss provision of BFr210m ($6m) on its 1989 results to cover the risks on a loan it made to US investment bank Drexel Burnham Lambert, Reuter reports. CERA lent Drexel $10.6m in 1988 in the form of a floating-rate note.

Pharos to acquire US laser unit in $350m deal

By John Burton in Stockholm

PHAROS, the high-tech arm of Nobel Industries of Sweden, will buy Spectra-Physics of the US, the world's leading producer of laser equipment, from Ciba-Geigy of Switzerland for around $350m.

The deal comes less than two weeks after Pharos made a £15.8m ($26.6m) bid for Continental Microwaves, the UK communications equipment manufacturer.

The two acquisitions are expected to almost triple Pharos' turnover this year to SKr4bn ($68.5m) from SKr1.4bn in 1989. Pharos had a profit after financial items of SKr160m in 1989.

Pharos said it expected to see synergy effects that would improve the earnings of Spectra-Physics, which reported a pre-tax profit of $15m on sales of $324m in 1989.

Both companies produce similar electro-optical distance measuring equipment for construction, with this sector being Pharos' biggest business area.

Pharos will gain a significant slice of the global market for gas and solid gas laser equipment, of which Spectra-Physics has a 38 per cent share.

The lasers are mainly used in scientific research and medical equipment. Spectra-Physics also produces special optics for lasers.

The California-based company also has 55 per cent of the world market for slot scanners used in retail outlets.

In addition, it manufactures liquid chromatographs and data systems for the chemical and pharmaceutical industries.

The purchase of Spectra-Physics will be partly financed through a share issue of around SKr1bn.

Nobel, the chemical and armaments conglomerate, will subscribe to 75 per cent of the new issue, almost equivalent to its holding in Pharos, and guarantee the rest.

US glassmaker's Europe plans

By William Dawkins in Paris

GUARDIAN Europe, the US-owned glassmaker, which has 9 per cent of western European flat glass making capacity, is planning to build a $100m plant, its fourth in the region.

Mr Jim Moore, managing director of the Luxembourg-based company, said the decision on where to site the factory would be made in the next month from "numerous possibilities" in France, Italy and Spain.

The plant, with a daily capacity of 500 tonnes to 600 tonnes, would initially take up the slack while Guardian repairs one of its two Luxembourg factories. But it would significantly increase the group's net capacity in the early 1990s, said Mr Moore. The group's third European factory is in northern Spain.

The announcement is the latest sign of increasing competition in the European glass industry, following the takeover two weeks ago of Solaglas, a leading UK fabricator and distributor, by Saint-Gobain of France, Europe's largest glassmaker.

Mr Jean-Louis Beffa, Saint-Gobain's chairman, is pressing the French Government not to tempt Guardian with a higher level of investment aid than the FFr32m ($6m) the French glassmaker received for its newest FFr500m to FFr600m plant, opened in southern France last summer.

It is understood that a site near Nîmes in southern France is among the US company's options. Saint-Gobain officials also question the wisdom of opening new and possibly surplus capacity, a fear dismissed as unrealistic by Mr Moore. Saint-Gobain controls 13 flat glass plants across western Europe, giving it 37 per cent of the region's capacity.

Guardian believes the European glass market will grow by 3 per cent to 5 per cent in the near future and is expecting strong demand from the construction industry in eastern Europe, where it is building another factory in Hungary.

Plans for Degussa/Merck link collapse

By Katharine Campbell in Frankfurt

TALKS between Degussa and E. Merck, aimed at combining the two West German companies' pharmaceutical operations, have collapsed due to insufficient synergy, it was announced yesterday.

Degussa, the precious metals and chemical concern, had been looking for a partner for its Asta Pharma subsidiary, to help spread the very high research and development costs invariably associated with the pharmaceuticals business.

Merck, which specialises in pharmaceuticals and some chemicals and is privately owned, had been interested in absorbing Asta Pharma, offering Degussa a stake in Merck in return.

Analysts had assumed that Merck would be particularly interested in the other company's progress in the field of research into cancer therapy drugs.

Merck, with pharmaceutical sales last year worth DM1.485bn ($908m), and R&D expenditure at 31 per cent of turnover, said it would not be looking for another partner.

Degussa's Pharma unit has sales of DM749m and an R&D expenditure of 9 per cent of sales.

ABB told to transfer control of FTCL

By John Wyles in Rome

A ROME magistrate yesterday ordered Asea Brown Boveri (ABB) to pass majority control of FTCL, the Italian electrical generating equipment manufacturer, to the joint venture it set up last year with Ansaldo, part of the Iri Finmeccanica engineering and electronics group.

In a judgment which gave Ansaldo-Finmeccanica most of what it sought, but which also allowed ABB to express some satisfaction, Judge Domenico Bonaccorsi found there was no valid reason for ABB to delay the transfer of 51 per cent of FTCL shares. Control of FTCL was due to pass to Ansaldo ABB Componenti, 60 per cent owned by Ansaldo, under a rationalisation plan designed to strengthen Italy's generating equipment sector by developing the joint venture's technical capacities and by making it a privileged supplier to ABB of power station boilers and steam turbines.

During earlier hearings, ABB argued it had decided to delay the effective launch of the joint venture until the European Commission ruled on its compatibility with the Community's anti-trust rules. Judge Bonaccorsi said he did not feel bound to suspend judgment pending a Commission decision and said that the anti-trust implications of the joint venture agreement were minimal because it would affect only the Italian market.

However, he required Ansaldo-Finmeccanica to ensure there was no transfer of technologies from FTCL, which manufactures under licenses from Combustion Engineering, to Ansaldo, which holds Babcock and Wilcox licenses for its boilers, until the Commission had taken a view.

Expressing its satisfaction with yesterday's judgment, Ansaldo-Finmeccanica said it would not take any steps which would prevent the eventual application of any Commission judgment against the joint venture. ABB pronounced itself satisfied on this point last night and undertook to co-operate with Ansaldo-Finmeccanica.

Strong pre-tax earnings lift UK supermarket chain

By Nikki Tait

J. SAINSBURY, the supermarket and stores group, yesterday unveiled full-year figures at the upper end of analysts' expectations. In the 12 months to March 17, the group made £420.7m ($707m) before tax and property profits, compared with £352.3m a year earlier.

In contrast to the gloom pervading other sectors, the group said that trade on the UK food side was "buoyant" throughout the year.

It reported an overall UK trading margin of 7.04 per cent compared with 6.89 per cent in the previous period, and claimed that its annual market share on UK food sales had increased from 10.9 per cent to 11.6 per cent.

However, growth came predominately from the addition of new stores, and from the group's larger existing stores. Across the entire chain, "like-for-like" volume growth was negligible, whereas for stores of more than 25,000 sq ft, "like for like" sales growth topped 12 per cent against price inflation of only 6.8 per cent.

Sainsbury's total group sales in the 52-week period reached £7.26bn, compared with £5.91bn a year earlier – a figure slightly distorted by the Savacentre hypermarket business, which is now a 100 per cent subsidiary rather than a 50 per cent associate as in 1989.

Sainsbury saw sales of £5.64bn, 15.1 per cent up on the previous year, and operating profit of £409m compared with £341.8m.

Some 22 supermarkets were opened, although the total chain size remained little changed at 291 outlets.

At Savacentre, operating profit reached £17.8m against a comparable £16.7m in the previous year, on sales 20 per cent higher at £365.8m.

Even the Homebase chain saw operating profits advance from £8.6m to £10.9m on sales of £200.6m against £180.3m.

Lord Sainsbury, chairman, acknowledged that the DIY market had been difficult but said that this had, if anything, improved since the year-end.

SBC wins control of Italian bank

By William Dullforce in Geneva

SWISS BANK Corporation, Switzerland's second largest bank, has effectively secured control of Banca della Svizzera Italiana (BSI), the country's sixth biggest listed bank, through its acquisition of a 48.7 per cent stake in Unigestion, the Geneva-based finance company.

Details of the deal, announced on Monday, were disclosed in Zurich yesterday. SBC stressed that the Lugano-based BSI and Unigestion would continue to operate independently under their existing managements, but SBC will become the biggest stakeholder in each of them.

The focal point of the deal is Uni-Tower Holding, the company set up by Unigestion with Park Tower, the New York company owned by Mr George Klein, the property developer, to hold the interest in BSI they bought in 1988. Uni-Tower owned 36.5 per cent of the BSI share capital and 49.9 per cent of the voting rights.

On Friday Unigestion bought out Park Tower's 49 per cent holding in Uni-Tower for an undisclosed sum, taking its control to 100 per cent. On Monday SBC said it had acquired 48.7 per cent of Unigestion through the purchase of a block of unlisted registered shares.

Yesterday Mr Bernard Sabrier, President of Unigestion, announced that his company would shortly raise its equity from SFr217m ($155m) to between SFr420m and SFr500m depending on stock market conditions.

The capital increase would be placed with SBC and other shareholders, leaving SBC with just less than 50 per cent of the Unigestion share capital.

Mr Sabrier and his associates would retain 25 to 30 per cent and the rest would be in independent investors' hands.

SBC said it had no immediate plans to take its stake beyond 50 per cent by buying more Unigestion shares on the market. Nor was it seeking to convert its existing SFr370m loan to Uni-Tower into equity.

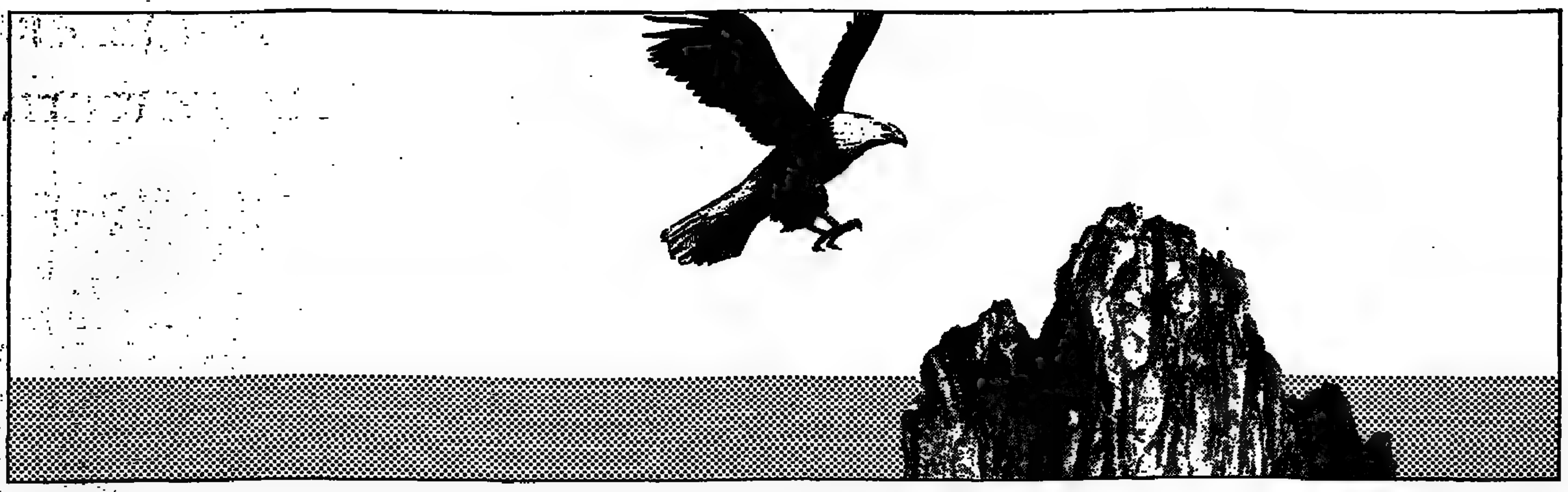
Steelmaker out of red after 14 years

By John Wyles in Rome

A 14-YEAR term of continuous losses by Italy's public sector steel industry was brought to a close last year when Ilva, formerly Finsider, achieved net profits of L208bn ($17m) on sales of L10,800bn.

Ilva's top management reported that first-quarter earnings were running higher than forecast, despite a fall in prices for steel coils. The company said last year's performance owed much to the strength of the steel market, but an important contribution had also been made by a rationalisation plan aimed at cutting operating costs of L1,200bn by 1993.

The benefits of enhanced efficiencies and a new capital base following the liquidation of Finsider are evident from the company's results. Its gross operating margin of L1,862bn was 17 per cent of sales while its cash-flow of L1,150bn was sufficient to cover technical investments of L410bn and shareholdings in private sector steel companies of L250bn. Some L422bn has been set aside out of ordinary profits for tax, extraordinary provisions and restructuring costs.



INTERNATIONAL COMPANIES AND FINANCE

JC Penney profits fall short of predictions

By Karen Zagor in New York

J.C. PENNEY, the fourth largest US retailer, yesterday reported disappointing sales for the first quarter, reflecting a decline in its non-department store businesses.

Although net income for the three months improved by more than 20 per cent, to $154m or $1.15 a fully-diluted share against $128m or 93 cents a year earlier, analysts had expected profits of about $1.30 a share. The 1989 results included a one-time charge of $20m or 16 cents a share.

Sales grew 6 per cent to $3.8bn from $3.58bn a year ago. The company said gross margins as a percentage of retail sales declined in the latest quarter. Improved margins from stores were offset by lower margins for catalogue merchandise and drug-store operations.

The company's shares fell $1¼ to $65⅝ at midday yesterday on the New York Stock Exchange.

The Limited, one of the largest US companies specialising in women's clothing, reported a 38 per cent jump in first-quarter net income on sales which grew 15 per cent. For the three months ended May 5, it had net earnings of $52.2m or 34 cents a share on sales of $1.1bn.

Pathé sells Cannon stake

By Alan Friedman in New York

PATHE Communications, the Hollywood studio controlled by Mr Giancarlo Parretti, the Italian financier, said yesterday it had agreed to sell its 60 per cent stake in Cannon Pictures, a low-budget motion picture subsidiary, to Trihoof Investments, a Dutch-registered company.

Mr Aurelio Germes, Pathé's chief financial officer, stressed yesterday that the deal was not connected to Pathé's $1.2bn tender offer to acquire MGM/UA, the film and television studio.

The net cash proceeds of the Cannon transaction will be around $3m. Mr Germes also said he expected Pathé to make its third $50m payment tomorrow of a security deposit on MGM/UA.

Trihoof is controlled by Mr Ovidio Assonitis, an Italian who already owns 15 per cent of Cannon Pictures and serves as its chairman.

Cannon Pictures, formerly known as 21st Century Distribution, was a bankrupt company acquired a year ago by Pathé. It is not connected with the old Cannon Group, which Mr Parretti renamed Pathé.

Trading in shares of Cannon, which is quoted over-the-counter, was suspended yesterday morning at ⅛ of a cent, slightly below the 13.6 cent-per-share tender offer being made by Trihoof.

Mr Ted Cohen, a lawyer at Pathé, said yesterday that the total value of the Trihoof tender for Cannon was $5.7m, of which Pathé would receive $5m for its 60.1 per cent of outstanding shares. Mr Cohen said Pathé would hand back $2m to Trihoof $2m, representing part of a 50 per cent stake in rights to the film Midnight Ride.

Southland operating loss grows

By Roderick Oram in New York

SOUTHLAND, the highly leveraged parent of the 7-Eleven convenience store chain, has reported an increased pre-tax operating loss that augurs poorly for its efforts to restructure its finances.

The loss from continuing operations for the quarter ended March rose to $162m from $128m a year earlier on sales of $1.94bn, up 2 per cent from $1.9bn for the quarter a year earlier.

Tax benefits totalling $92.5m reduced the net loss to $69.4m or 35 cents a share, while a year earlier the net loss was $169.4m or 86 cents after tax benefits and charges for exchanging debt.

The Dallas-based company is trying to restructure $1.8bn of publicly traded bonds that helped finance the $4.9bn leveraged buy-out of the company in 1987 by the Thompson family, its founder.

The latest figures underscored the bleak prospects the company outlined recently in its debt exchange prospectus. Even if the restructuring is completed, it expects at best a break-even cash flow until 1997.

The plan, announced in March, is running into resistance from investors who feel it is too generous to the Thompsons.

They will retain a 15 per cent equity stake in Southland while bondholders will receive 10 per cent, and 75 per cent will be sold for $400m to the Japanese franchisees of 7-Eleven.

The company, with its largest convenience store chain in the US, reported a 3.6 per cent rise in sales per store per month during the quarter.

Gross merchandise profits were 2.5 per cent higher than a year earlier, when results were hurt by heavy price-cutting on selected products.

Retail petrol gross profits fell 2.4 per cent due to fewer stores offering petrol.

Both 7-Eleven and Circle K, the country's two largest chains, have been hard hit by competition from petrol stations with convenience stores owned by the top oil companies.

Bank sell-off brings capital hopes

Richard Johns reports on the privatisation of Mexican banks

Mexican officials are hoping for a return of flight capital to the tune of $10bn in the wake of President Carlos Salinas de Gortari's decision to privatise the commercial banks.

The privatisation is being seen not only as a measure to reduce the role of the state but also as a key instrument to generate private sector confidence in the administration's economic policies.

The state majority holdings in the country's 18 commercial banks — 70 per cent of total equity — have a current market capitalisation approaching $4.5bn. This promises to be an even larger divestment than the proposed privatisation of the state's 57 per cent stake in the national telephone company, Telmex, valued at $3.4bn.

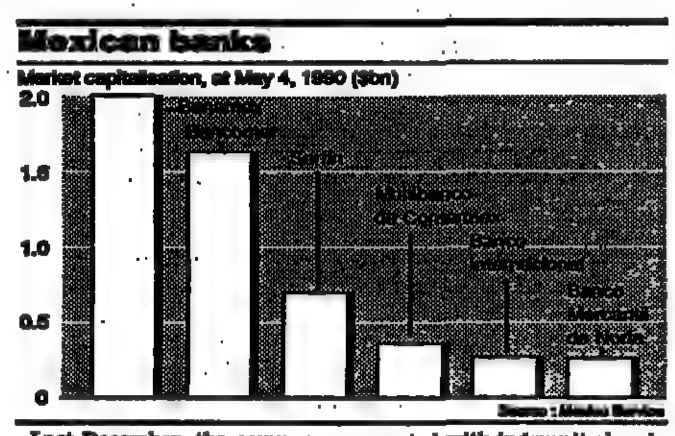
But while the Telmex sale has been well flagged in advance, the bank privatisation has come as a surprise. When President Salinas delivered his first state of the union message six months ago, he gave no hint of touching the banks. The banking system was taken over in 1982 by his predecessor but one, Mr Jose Lopez Portillo, and its reprivatisation was precluded by the constitution.

The general assumption was that the legislation necessary to permit the denationalisation of the banks in the Constitution would be opposed by the left-wing opposition and looked upon with misgiving by members of the ruling Institutional Revolutionary Party (PRI). Thus nothing would be attempted until after the mid-term elections next summer.

These assumptions proved wrong. Two weeks ago the President announced the privatisation, and last weekend the lower house of Congress gave the two-thirds majority to the constitutional amendment required to allow the sale of the banks to the public.

Since 1987, the system has been partially privatised by the sale of up to 34 per cent of the commercial banks' equity in the form of *certificados de aportacion patrimonial*, or Caps. Having been laggards on the Bolsa Mexicana de Valores (BMV), this year they have become boom stocks trading at above net book value and with a price increase far exceeding the rise in the stock market index.

Deregulation, the enormously increased freedom to extend credit freely (exempted from draconian requirements to lend to the Government and reserve requirements), and that banks are exempt from the controls on prices under the economic pact, have contributed to the shares' performance.



Last December, the commercial banks' position was transformed as the amount of their credit portfolios cleared for loans at their own discretion was raised from 37.2 per cent to 70 per cent. And in March they were allowed to compete on a more equal footing with brokerage houses and other intermediaries for savings.

As a result they have been performing as commercial banks are meant to do — giving credit to the private sector, to which their lending rose by 32 per cent in real terms last year. Operadora de Bolsa, the brokerage house, recently forecast an increase in its average profits in 1990 of 23.4 per cent, compared with a contraction of 10.4 per cent for industrial companies.

For Mexico's economic cabinet the opportunity was, perhaps, too good to be missed. Justifying the decision to relinquish majority control, the President stressed the state's need to concentrate limited fiscal resources on social sectors, such as education and health, as well as badly neglected infrastructure.

The Government is, therefore, looking for every available peso, as underlined by last month's announcement about the sale of the state-owned steel companies. But a key factor in the privatisation decision was the disappointing response to Mr Salinas's visit to western Europe in January when he sought foreign investment and a foothold for Mexico in the European Community. Another motive was Mexico's commitment to the General Agreement on Tariffs and Trade, which may result in Mexico having to open up its financial services sector.

Behind this lies the equally important aim of attracting back the huge quantities of flight capital that left Mexico during, and after, 1982. A considerable inflow will be needed to buy the state majority holdings, especially with competition from other state properties up for privatisation.

Former owners were compensated with indemnity bonds related to net worth plus accrued interest. They invested in other financial services, in particular the brokerage business which was denied the expropriated banks.

Flush with cash invested in the short-term money market they are in a position to bid. For instance, Mr Augustin Legorreta, head of leading brokerage house Inverlat, is widely expected to attempt to buy back control of Banamex, the biggest commercial bank of which he was once the leading shareholder.

Last December the maximum equity allowed to an individual or institution in the form of Caps was raised from 1 per cent to 5 per cent. The brokerage house Acciones y Valores — a leading contender for Telmex — has bought a seat on several bank boards and is one of a number of investors poised to swoop.

Reduced in number from 59 to 18 — a positive aspect of state ownership — the *bancos multiples*, as they are known, have varying prospects in a system dominated by Banamex, Bancomer and Serfin.

BCH, Bancrecer and Banpais, which have not had strong enough balance sheets to issue Caps, are known to have received support from Fonapri, the secret support fund to which all banks contribute, and seem likely candidates for mergers or takeovers. Early this year two others, Banco Mexicano Somex and Multibanco Mercantil de Mexico — former Fonapri beneficiaries — were robust enough to place Caps on the market.

In saying that the state would wish to keep shareholdings in the banks to strengthen the system, Mr Salinas probably wants to keep directors on the board and maintain a regulatory system. Nothing was said in his submission to Congress about foreign participation, but senior officials say they want it if they can get it. Guidelines for both sale of state shares and foreign participation will have to await secondary legislation.

Singapore Land gives in to UIC

By Joyce Quek in Singapore

ACTIVE share trading yesterday marked the resolution of Singapore's biggest takeover bid, after directors of Singapore Land, a leading property company, capitulated to the S$2.3bn (US$1.3bn) offer from United Industrial Corporation, a local conglomerate.

Aggressive UIC has only half the market capitalisation of Singland, but its success was being attributed to good timing and adequate financing.

Singland shares lost another 30 cents to finish 50 cents below the UIC offer of S$15 per share. UIC saw the day's busiest dealings, although also dipped to S$2.64 from a peak S$2.82.

The Singland board threw in the towel late on Monday, advising shareholders with short-term investment objectives to accept UIC's offer. Only three days earlier, raising the group's profit forecast for the current year to August 1990, it attacked what it said was UIC's lack of a defined strategy.

Its defence had also argued that the bid was designed to gain effective control at minimum cost and that UIC's past record had been characterised by short-term buy and sell decisions.

Singland directors said then that they would communicate again by yesterday, giving rise to suggestions that they would fire more such attacks. Instead they gave in.

There were four reasons for the surrender. First, Singland conceded that UIC was close to effective control, holding 38.9 per cent of its shares and warrants as of last Friday. Second, there was no white knight waiting in the wings. Third, a discussion with UIC over the weekend concerning a possible increase in the offer price brought no joy.

Lastly, the publication of the company's profit forecast and asset revaluation – which put an estimated backing of S$18.06 on the shares – did nothing to buoy the company's share price, which was weakening.

The directors apparently acknowledged that the price would not be sustained if UIC allowed its offer to lapse after Friday, the closing date.

Government move on Petro-Canada float

By Robert Gibbens in Montreal

THE CANADIAN federal Government hopes to take the first step in privatising Petro-Canada this autumn, according to Mr John McDermid, Privatisation Minister.

Legislation will be introduced before the summer recess, he said, and despite strong parliamentary opposition, polls show that 70 per cent of Canadians support the sale of Petro-Canada so long as control remains in Canada.

With lower short-term interest rates possible in Canada by autumn, market conditions may allow the Government to offer about 15 per cent of Petro-Canada to the public, using the 1988-89 two-step privatisation of Air Canada as a model.

Petro-Canada is carried on the Government's books at C$4.3bn (US$3.7bn), but has been estimated to be worth more than C$6bn. It is the country's second largest integrated oil and gas company and is having a full work-out, including capital restructuring, asset sales, acquisition of reserves and staff reductions.

The company has five refineries and 3,400 retail outlets across Canada and is also a big producer of oil and gas. In 1989 Petro-Canada posted earnings of C$85m before special items against a loss of C$11m.

The Government also plans to privatise Telesat Canada, a communications group, and two small medical technology companies later this year.

SA brewer sales outrun consumer spending

By Philip Gawith in Johannesburg

SOUTH AFRICAN Breweries (SAB), the diversified beer and consumer products group, again increased sales faster than the national growth in consumer spending during its latest year to March.

Although SAB expects consumer demand to be inhibited for some time, it is confident that earnings will grow in the year ahead and capital expenditure of some R1.25bn ($480m) is planned for the current year.

Sales increased 25 per cent to R13.25bn in the year to March, and pre-tax profits were R1.16bn compared with R858m.

The turnover figure is well ahead of the estimated 17 per cent growth in private consumption expenditure over the same period, and the group has now seen turnover grow at a compound rate of 20 per cent over the last five years.

Beer division sales increased by 18 per cent, considerably above those for most other alcoholic beverages, particularly wine, which is struggling to show growth.

The buoyant beer sales are testimony to how the group has marketed itself to the urban black population, a large part of which has switched from drinking sorghum beer to malt beer. Beer's contribution to group earnings rose 19 per cent against a 22 per cent increase for other interests.

SAB's earnings per share increased to 225.2 cents from 187.2 cents the previous year, and the dividend was lifted from 84 cents to 101 cents.

Labour strife and tax rise hit Nampak

NAMPAK, the packaging company controlled by South Africa's Barlow Rand group, saw earnings decline by 3 per cent in the six months to the end of March as a result of social and labour unrest and a higher tax bill, writes Philip Gawith.

Sales were up 15 per cent to R1.7bn ($650m) and operating profit 19 per cent better at R200.4m. The tax rate, however, jumped from an effective 37.3 per cent to 42.8 per cent following revision of wear-and-tear allowances and the proposed amendment to tax on consumable stores. This saw the overall tax bill rise 28 per cent to R72.7m.

Earnings per share were 3 per cent down at 205 cents and the dividend was kept at 68 cents per share. The directors are not optimistic about the remaining period and believe earnings for the year will be lower than last year.

Speedo in $85m management LBO

By Alice Rawsthorn

SPEEDO, one of the largest swimwear and sportswear companies in the US, is staging a $85m leveraged buy-out from Warnaco, its parent company. Pentland, the UK consumer goods group linked to Reebok of the US, will be a significant shareholder in the new business.

Pentland has been exploring opportunities for diversification since restructuring last summer. It is said to be interested in the Speedo European business, a separate company run from the UK. This business has been up for sale since January, when the Response Group, its parent company, went into receivership.

Speedo dominates the "serious" – or performance – swimwear market in the US, and competes in the fashion market against mainstream brands such as Cole and Catalina.

The Speedo business, based at Van Nuys, California, with production plants in the US and Canada, makes swimming goggles and sportswear as well as swimwear. It made pre-tax profits of $13.3m on sales of $84.7m in 1989.

Warnaco, which has owned Speedo for several years, is the product of an LBO, and is selling Speedo to release capital to alleviate the interest burden on its debts.

After the buy-out, Speedo's management will hold 52 per cent of the voting shares together with Warnaco. Pentland will pay $10m for an initial holding of 48 per cent, while retaining the right to take majority control.

The General Electric Capital Corporation will finance the rest of the buy-out and provide working capital. It will receive a fully diluted holding of 36.7 per cent in the form of warrants convertible into Speedo US common stock. After the warrants have been exercised, Pentland's holding will be diluted to 39.3 per cent.

Pentland has conducted the deal through Pentland Ventures, an unlisted investments division formed last summer to concentrate on venture capital projects such as LBOs. Mr Stephen Rubin, chairman, said the Speedo deal was "typical of the sort of investments" Pentland would be making in the future.

Pentland is now considering other similar ventures, including a possible investment in Speedo's European business.

Citizen Watch dips after move into office machines

By Martina Gannon in Tokyo

PRE-TAX profits of Citizen Watch, the leading Japanese watchmaker which is diversifying into office automation equipment and precision instruments, dipped by 3.5 per cent to Y15.1bn ($99m) in the year to March.

Sales were up almost 9 per cent to Y195.2bn. In response to falling demand for watches, the company has been investing heavily to increase sales of non-watch products to more than half the total.

Sales of industrial machine tools, floppy disk drives and electronic equipment have risen sharply in the past year, the company said.

Citizen has also started marketing personal computers on an original equipment manufacturing basis.

Operating profits were down 8.6 per cent to Y11.7bn. Net income in that period totalled Y14.4bn, compared with Y14.9bn.

Citizen expects moderate growth in the watch and machinery markets in the coming year, forecasting a rise in pre-tax profits to Y17bn.

The company aims to expand its printer, parts and electronic equipment sectors to boost sales.

● Consolidated net profits of Nintendo, Japan's leading video-game maker, increased to Y32.9bn in the seven-month period to March, almost equalling the preceding 12-month total of Y34.2bn.

The irregular term is due to the company changing its year-end.

Eighth year of growth at R Jones Investments

By Terry Hall in Wellington

ROBT. JONES Investments, a New Zealand property group which has substantial holdings in Australia and the US, yesterday announced net profits of NZ$43.2m (US$24.7m) for the year to March, a 42.8 per cent increase.

Sir Robert Jones, the chairman, said this was earned on gross revenues of NZ$147.1m against $114.3m, and represented the eighth consecutive year of profit increases since the company was formed.

He said the overall price level of New Zealand property was at an "irrationally low level" and presented splendid buying opportunities. However, this had a detrimental effect on its New Zealand asset valuations.

Market values had to ultimately reach replacement levels, Sir Robert said. The company was in an exceptionally strong cash position, with first-rate secured income and considerable cash resources to take advantage of the depressed local market.

It had bought 17 commercial buildings in New Zealand during the year, for a total cost of $110m.

Some of these had been bought for a third of replacement cost, and would provide a "springboard for the inevitable recovery ahead."

Investments totalled $1.65bn compared with $1.34bn, and shareholders' funds increased to $996.7m from $768.8m, mainly from an increase of $120m in capital reserves.

RJI is paying a total dividend of 8.4 cents a share, up from 7 cents.

Profit down 51% at ICI Australia

ICI AUSTRALIA, 62.4 per cent owned by Imperial Chemical Industries of the UK, showed a 51 per cent fall in net profits to A$43.58m (US$33.5m) for the six months to March, Reuter reports from Melbourne.

It said difficult trading conditions were expected for the rest of 1990 as the economy continued to slow.

The company said there were signs that international plastics and fertiliser prices had stabilised, but little benefit was expected for the remainder of the year.

The setback was partly due to a steep fall in international prices of some plastics, chemicals and fertilisers. Reduced economic activity and increased operating costs also contributed, it said.

"Major initiatives to contain costs and improve productivity are continuing," said the company. Sales were steady at $1.5bn, but rose 6 per cent if allowance was made for businesses sold in 1989. The interim dividend is being maintained at 18 cents a share, more than absorbing net earnings of 14.9 cents, but down from 20.6 cents.

The most profitable trading division was industrial and speciality chemicals, with pre-tax profit of $44m against $63m. ICI Australia said the fall in earnings in this sector was due to the sale of a soda ash business and a decline in world prices for ethylene-based speciality products.

The next most profitable sector was consumer products, with profits of $42m against $39m, reflecting strong demand from health-care markets.

INTERNATIONAL CAPITAL MARKETS

Bunds fall on unification issue fears

By Deborah Hargreaves in London and Karen Zagor in New York

WEST GERMAN bund prices took another tumble yesterday as reports of additional bond issues to fund German unification depressed the market.

Although the market had been expecting a new bond issue for some time, the announcement yesterday that the Government would release details of its latest issue on Friday sent bund prices falling.

The 7¾ per cent 10-year bund lost 55 pfennigs in cash trading as the price fell from 94.65 to 94.10 with a yield of 8.66 per cent while the futures contract dropped by a point.

Analysts expect Bonn to issue a DM4bn to DM5bn bond with a coupon of around 8¾ per cent.

The forthcoming issue will mark the first time the Government has issued a fixed rate bond since February – the March bond issue was in the form of a floating-rate note but it received a tepid reaction

GOVERNMENT BONDS

from the market.

The weaker D-Mark was another factor that influenced the bond market yesterday as well as the rush of speculation about German unity bonds being issued to tap foreign investors as a way of funding unification.

The moves by the Bundesbank and the Government to deny the creation of unity bonds added further unease to an already fragile market.

■ THE French market followed Germany downwards yesterday with the notional bond futures contract on the Matif easing by 36 ticks to 102.78.

Buyers of French 10-year bonds are sitting on the fence in advance of today's release of inflation figures.

The market expects inflation to have risen by 0.4 per cent in April, marking a year-on-year inflation rate of 3.2 per cent.

■ THE UK gilts market continued its wobbly course yesterday as analysts sought desperately to explain the market's recent volatility.

The gilts futures contract on the London International financial futures exchange seesawed up and down in a ¾ point range and ended up closing ⅞ lower.

Liffe announced yesterday that it would list a third year on its 3-month sterling interest rate futures contract on June 21. The exchange points to the build-up in open interest in the current contract months as a reason for listing an additional year.

Some 36,000 open positions in the second trading year of the contract account for an underlying value of £18bn.

The gilts market was depressed yesterday by comments made in the House of Commons by Mrs Margaret Thatcher, the Prime Minister, which appeared to advocate lowering interest rates by the end of the year.

■ US TREASURY bonds drifted lower yesterday morning, giving up most of their previous day's gains in spite of further signs of softness in the US economy.

At mid-session, the Treasury's bellwether long bond was down 11/32 point at 101 11/32, yielding 8.61 per cent.

Among shorter-dated maturities, the two-year bond was down ⅛ point to yield 8.53 per cent.

The Federal Reserve arranged $1.5bn customer repurchase agreements when Fed funds, the rate at which banks lend to each other, were quoted at 8⅛ per cent.

The move, which adds reserves to the banking system, was widely expected.

The bond market moved lower in response to the continuing weakness of the dollar relative to the yen.

The market is worried that Japanese investors may lose interest in US treasury issues if the dollar continues to fall.

Furthermore, some are worried that a drop in the dollar may hurt domestic prices.

At lunchtime, the US currency was quoted at Y151.20 below its earlier high of Y152.13 in Tokyo.

The market, which has rallied in recent days amid signs that the US economy is weaker than had been expected, yesterday failed to move higher in spite of further signs of softness in the US economy.

The market was unmoved by yesterday's news that industrial output in April fell 0.4 per cent, largely due to a drop in motor vehicle production.

Excluding auto-related manufacturing, April's industrial output was essentially flat.

The March figures were revised down to a gain of 0.5 per cent from a previously estimated gain of 0.7 per cent.

Although the figures gave further credence to the picture of a weaker US economy, analysts did not think the drop in April's output was sharp enough to prompt the Federal Reserve to ease monetary policy at its open market committee meeting yesterday afternoon.

Analysts believe the Fed will wait for better inflation numbers before stimulating the economy by lowering the Fed funds rate.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS		10.000	4/93	92-11	+02/32	13.24	13.43	13.38
		10.500	5/99	89-09	-02/32	12.52	12.88	12.59
		9.000	10/08	82-02	-09/32	11.33	11.49	11.52
US TREASURY *		8.875	05/00	101-13	-10/32	8.66	8.85	8.63
		8.500	02/20	98-13	+07/32	8.65	8.83	8.59
JAPAN	No 119	4.800	6/99	88.2084	+0.541	6.91	7.27	7.30
	No 2	5.700	3/07	90.7906	+0.494	6.88	7.05	7.20
GERMANY		7.750	02/00	94.1000	-0.450	8.66	8.51	8.63
FRANCE	BTAN	9.000	02/95	96.3632	-0.142	9.97	9.75	10.02
	OAT	8.500	03/00	93.3000	-0.440	9.57	9.47	9.59
CANADA *		9.750	06/00	92.9000	+0.200	10.94	11.27	11.43
NETHERLANDS		7.750	01/00	92.1200	-0.470	8.99	8.92	8.93
AUSTRALIA		12.000	7/99	91.6357	-0.582	13.63	13.63	13.35

London closing. *denotes New York morning session
Yields: Local market standard
Prices: US, UK in 32nds., others in decimal

Technical Data/ATLAS Price Sources

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

Closing prices on May 15

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
B.F.C.E. 8½ 94	175	96¾	97¼	0	+0½	9.24
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Canada 5⅝ 93	80	96⅝	97	+0½	+1⅛	6.73
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OTHER STRAIGHTS [illegible]

DEUTSCHE MARK STRAIGHTS [illegible]

SWISS FRANC STRAIGHTS [illegible]

FLOATING RATE NOTES [illegible]

CONVERTIBLE BONDS [illegible]

* No information available–previous day's price

† Only one market maker supplied a price

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=Change over price a week earlier.
Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (three-month; §above mean rate) for US dollars. C.cpn=The current coupon.
Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv. date=First date of conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

JP Morgan to trade Italian debt

By Haig Simonian in Milan

J.P. MORGAN will today become the first foreign bank to join the list of primary dealers in the Italian government bond market in a sign of increasing foreign interest in Italian government stock.

"We hope we can help the internationalisation of the market by promoting Italian bonds to foreign institutional and supranational investors," said Mr Hendrik van Riel, head of J.P. Morgan's Italian operation.

The bank, which has three Italian government debt traders, will be the 20th member of the market-making group sponsored by the Bank of Italy in a bid to improve liquidity and professionalism in Italian debt trading.

At least two other banks are believed to be interested in becoming primary dealers, notably Banca d'America e d'Italia, the Deutsche Bank subsidiary, as well as a regional Italian institution.

Foreign interest in Italian paper has risen sharply in the past year thanks to the stronger lira, lower inflation and greater foreign confidence in domestic economic management. The market's attractiveness to foreign investors has also been boosted by the introduction of bigger issues and new tap stock, further improving liquidity.

However, problems remain, notably regarding withholding tax and the lack of a futures market in key lira contracts.

J.P. Morgan, a leading foreign player in the market, has also been active in helping to promote the new lira futures contracts being planned by the London International Financial Futures Exchange.

Privatised water companies given high ratings

By Stephen Fidler, Euromarkets Correspondent

SOME OF Britain's newly-privatised water companies were yesterday assigned the highest short-term credit ratings by two rating agencies. But both agencies indicated that the companies' long-term debt would not be of sufficient quality to carry the best AAA ratings.

Standard & Poor's, the US rating agency, said it assigned an A1+ short-term rating for four of the companies: Northumbrian, North West, Thames and Yorkshire. It also assigned a preliminary long-term debt rating of AA+ – one notch below AAA – to Thames. Since Thames is usually regarded as one of the higher quality companies, it is thus unlikely that any will carry the highest AAA rating.

IBCA, the UK-based agency best known for its analysis of bank credit, said it would also assign an A1+ rating to North West and Yorkshire. Long-term ratings would range from A to a high of AA.

INTERNATIONAL CAPITAL MARKETS

GM issue well received in spite of aggressive pricing

By Andrew Freeman

THE SWISS bond market showed renewed evidence of its recent resilience yesterday with two new issues finding steady placement despite relatively ungenerous pricing.

Crédit Suisse brought a SFr100m five-year deal for General Motors with a 7⅝ per cent coupon at 102. Syndicate members said the pricing was on the aggressive side, but added that the deal was well received and that co-managers had little difficulty placing their allocations.

Most of the demand was from retail accounts attracted by the name – the Ford $250m issue launched by CSFB on Monday was also reported still to be selling slowly to these accounts yesterday.

The GM bonds were quoted by the lead manager at less 1¼ bid, and at less 1⅜ bid elsewhere. Both prices were comfortably inside fees of 1⅝ per cent.

The issue proceeds were thought to have been swapped into floating-rate US dollars.

The Inter-American Development Bank tapped the market via Swiss Bank Corporation for SFr100m. The 10-year deal also had a 7½ per cent coupon.

Dealers described its reception as slightly muted, but said the pricing was designed to give a small pick-up to the market following a disappointing previous deal launched in March by UBS. SBC was quoting the paper at less 1⅞ bid, while other syndicate members said it was trading around fees at less 2 bid.

On the secondary market, two recent five-year issues were trading for the first time and both closed above their issue prices despite a slightly easier overall tone as investors indulged in mild profit-taking after the recent strong price gains.

Elsewhere, the market took a breather as trading desks tried to place Monday's heavy supply. The Japan Development Bank $150m deal continued its good performance, while the IFC issue was trading around 99.60 bid in line with the Treasury market.

Mitsui Taiyo Kobe International was the lead manager of a successful Y20bn issue for Crédit Agricole. The 2¾-year bonds carried an attractive 7.4 per cent coupon and met unexpectedly strong demand from Far Eastern and other institutional accounts.

In early trading the paper was quoted at 100⅞ bid, and by the close had risen to 101 bid, just ⅛ point below the issue price and a full point inside underwriting fees. The lead manager said the deal was put together last week when a floating-rate US dollar swap was locked in.

A C$100m three-year deal for Nordic Investment Bank was launched by ScotiaMcLeod to a quiet reception in a nervous market. The bonds carried a 13 per cent coupon and were priced at 101.90 to yield 50 basis points over the equivalent Canadian Treasury.

The lead manager said it kept more than half the deal itself. It reported steady retail interest, although it said the paper was taking some time to place. The bonds were quoted at less 1⅝ bid, a discount equivalent to full fees. Although the lead would not comment, it is thought the proceeds were swapped into floating-rate US dollars. At market rates, this would have achieved a funding rate of around London interbank offered rate flat, a poor level for NIB which has a reputation for aggressive funding targets.

Late in the day an Ecu100m two-year issue for the Council of Europe was brought by Merrill Lynch. The bonds carried a 10½ per cent coupon and were priced to be placed into institutional demand at 100, a discount equivalent to underwriting fees. It is understood the proceeds were swapped.

● Standard & Poor's has expanded its Market Match screen-based price information service to allow access to all members of the Association of International Bond Dealers. A new service called Offerings Wanted will allow users to advertise requests for Eurobonds.

The service adds to the Market Match system which brings together buyers and sellers of secondary market and illiquid Eurobonds.

The system, launched by S&P for testing in January, provides real-time access to bond prices which can then be negotiated between interested parties. It was previously restricted to AIBD-reporting dealers.

Its expansion is expected to stimulate significant business from retail and private banks which often have blocks of illiquid bonds they want to place or buy.

● Extel Financial, the information service, announced a joint venture with IBM to distribute its services via the IBM Information Network.

INTERNATIONAL BONDS

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
YEN						
Credit Agricole(a)♦	20bn	7.4	101⅛	1993	1⅛/1⅛	Mitsui Taiyo Kobe Int.
ECUs						
Council of Europe(a)♦	100	10½	101⅛	1992	1⅛/⅝	Merrill Lynch Int.
CANADIAN DOLLARS						
Nordic Investment Bank(a)♦	100	13	101.90	1993	1⅛/⅞	ScotiaMcLeod
SWISS FRANCS						
General Motors Corp.(a)♦	100	7⅝	102	1995	1⅝	Credit Suisse
Inter American Dev. Bank(a)♦	100	7½	100	2000	2	Swiss Bank Corp.
STERLING						
Bradford & Bingley B.S.(b)♦	50	⅛	99.87	1999	n/a	CSFB

‡Floating rate notes. ♦Final terms. a) Non-callable. b) Coupon pays ⅛ over 3-month Libor. First coupon pays ⅛ over one-month Libor. Fixed re-offer price. Fungible with £150m floating rate note launched in October '89, from July 12.

BBL joins Irish group in aircraft leasing

By Paul Abrahams

BANK Brussels Lambert, the Belgian bank, and International Aircraft Services, the Irish aviation service group, have formed a joint venture to invest up to $500m in the rapidly-growing aircraft operating lease market.

BBL will own 20 per cent and IAS 45 per cent of the new concern, to be called Airlease Finance. The remaining 35 per cent will be raised through a company called the International Aviation Fund.

The initial public subscription for the International Aviation Fund will run from May 17 to June 18 and can be closed once the amount subscribed exceeds $64m. BBL and IAS expect most interest to come from institutional investors and banks. The minimum investment is $20,000. The Belgian bank hopes eventually to launch the International Aviation Fund on the Brussels and Luxembourg stock exchanges.

Once the equity has been arranged, Airlease Finance will invest in wholly-owned separate companies, which it will use as vehicles for specific aircraft finance deals.

Investment firms link to offer country funds

By Richard Waters

FOUR EUROPEAN investment management groups have formed a joint venture to market a series of country funds under an umbrella investment company in Luxembourg.

The four — Hill Samuel Investment Management of the UK, CCF Structured Asset Management of France, BHF Trust of West Germany and Kredietbank of Belgium — expect to offer funds based on their respective stock markets by the end of this month.

The funds will use mathematical and statistical analysis to select stocks – a method still in its infancy in many continental countries, in part because of the lack of historic share price data on which to build an investment model.

Reform stalks the Milan panther

Haig Simonian on quickening change at the Italian stock market

Little has changed at the Milan Stock Exchange since an Italian banker said the famous words two years ago: "Because the Borsa looks like a stock exchange, people think it is a stock exchange. Just as one might look at a black panther and think it was a black cat."

Topping the list of traits still to be tamed are rampant insider trading, an antiquated dealing system and settlement that can keep investors waiting up to 45 days for their cash.

The result is that foreign funds are often hugely underweight in Italy, despite its size and now-booming economy. Never short of innovative companies, thrusting entrepreneurs and a welter of small firms, all of which should be ripe for future flotation, Italian bourse practice has tamed even the bravest fund managers.

Attempts to clean up the exchange and bring it into line with its European rivals have so far shared only one characteristic – delay. Among a string of proposals still waiting to be passed are new laws on insider trading, monopoly ownership and takeover bids.

None is more important than the creation of a new brand of financial institution, called a Societa di Intermediazione Mobiliare (Sim). The Sim law is the crucial plank of the bourse reform, on which all else rests. But despite four years of preparation, parliamentary debate and countless amendments, Italy's "mini-Bang" is still a long way off.

Like Big Bang in London, the Sim law will revolutionise the way stocks are traded by removing the current monopoly held by the country's agenti di cambio (stockbrokers) on the exchange floor. Officially appointed by the Treasury, 120 of the 200 brokers work at the Milan bourse, which handles about 90 per cent of all Italian stock market business.

Though rationalisation and mergers have thinned their numbers over the years, many agenti are still one-member bands, more akin to a local on a US futures exchange than most people's conception of an up-to-date broker.

There are exceptions. Pastorino, Albertini and Aletti are three respected Milan firms, while Ginbergia is a highly-regarded Turin company whose star recently rose further after being picked by S.G. Warburg to co-operate on joint Italian research, in what may be a prelude to a closer match once the Sim law is passed.

Banks, principally domestic, but perhaps also eventually foreign, are seen as the most likely owners of the Sims. The new entities will not only be able to deal on the stock exchange, but also carry out a variety of other businesses, including underwriting and financial advisory work, in a model much closer to that of the UK.

One reason for involving the banks more closely is to reverse the present situation where 70 per cent of business takes place off the bourse. While transparency on the exchange floor is hardly ideal, practice on the interbank market is even more opaque. Deals are done over the telephone, with no screens for even indicative prices, let alone solid dealing rates.

By contrast, under the new rules, trading would have to be concentrated on the exchange floor.

Mr Franco Piro, the chairman of the finance committee of the lower house of parliament, which is now the focal point for the Sims law, is optimistic that change is on the way. "I hope to pass this law, which is so decisive for Italy's savers, by mid-June.

"You have to bear in mind that Italy is a country with very big savers, but also with very slow lawmakers," he says in response to critics of the delay.

Frequent changes of government and a notoriously slow legislative process have hindered the Sims. Article 2 of the new law attracted 29 amendments alone.

"I would prefer to pass the law, even with a few errors," says Mr Piro. "You can only perfect what is there. You cannot perfect what does not yet exist."

Two key obstacles have hindered the Sims, against a wider background of conflicting interests.

● Responsibility for regulating the Sims remains contested, with both the Bank of Italy and the Consob, the existing stock market authority, demanding the job.

● While many brokers appear reconciled to change, they are demanding a two-year transition period before the new law comes into effect. During that time, a Sim could only operate in conjunction with an established broker, thus prolonging the monopoly and making brokers indispensable for any outsider wanting to operate on the floor.

Italian bourse practice has tamed even the bravest fund managers . . . Attempts to clean up the exchange and bring it into line with its European rivals have so far shared only one characteristic – delay

Mr Attilio Ventura, the chairman of the stockbrokers' committee which controls the Milan bourse, accepts the exchange's need to modernise. "We are very much behind," he agrees. But he stresses the need for a transitional period to protect his members.

"It isn't just a transition period for the brokers," he says. "It's also a transition period for the banks." Behind the scenes are other reasons for delay. The head of one big foreign bank in Milan says: "No one is really pushing for change. The brokers aren't interested, nor are the issuers, nor, necessarily, are the banks themselves."

Italian issuers have long learned to live without the stock market. While Euro-borrowing has been the chosen method of many big groups, bank borrowing has satisfied others.

More surprisingly, the banks themselves may not have pushed as hard for the Sims as might be expected. One dealer notes: "The banks are already matching orders in their own back offices. That keeps trades off the floor and gives them double the commissions." Consequently, the banks only turn to the floor when they need to iron out imbalances.

Meanwhile, Italy's lack of pension funds and its rules limiting equity purchases by insurance companies remove two important institutional sources for change. And the mutual funds are still reeling from a continuing redemption wave that has seen their importance shrink.

Even Italian Governments have not always backed reform. Apart from pressure of other business, the bourse is still regarded with scepticism by many, and Thatcherite desire to create an equity-owning bourgeoisie is conspicuous by its absence.

With privatisation policy – one obvious motive for reform – now related by those Christian Democrats holding sway in Rome, matters seem unlikely to change. Moreover, despite the much-publicised problems of the Enimont public-private chemicals concern, joint ventures may still be the preferred solution for injecting private money into public business.

The Milan Stock Exchange has not been totally inactive. A computerised trading system – a subject under discussion even longer than the Sims – is due to come into use next year, probably with the purchase of an off-the-peg system from the Toronto Stock Exchange. And, despite months of false starts, it may not be too long before the first foreign share is listed in Milan.

However, while the Sims languish, work is also suspended on other crucial stock market-related legislation. A new ruling on takeover bids is the most pressing. Italy currently has a free-for-all, meaning a raider can gain control of a company by buying a key packet of shares – often through a bilateral deal off the floor with another big shareholder.

The bidder is under no obligation to offer the same terms to others. Although a full bid is sometimes made, more often minority shareholders are left out in the cold.

The new rules would require any shareholder already owning 25 per cent of a quoted company to make a full bid if seeking to buy at least 5 per cent more. But, like so many other key pieces of financial legislation, the proposal will only be dealt with after the Sims is passed. And when that will be is anybody's guess.

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

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EQUITY GROUPS & SUB-SECTIONS — Tuesday May 15 1990

FIXED INTEREST

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	52	20	26
Corporations, Dominion and Foreign Bonds	6	2	16
Industrials	327	358	902
Financial and Properties	131	148	457
Oils	18	33	39
Plantations	0	1	9
Mines	13	58	91
Others	68	66	112
Totals	615	686	1,652

LONDON RECENT ISSUES

EQUITIES

FIXED INTEREST STOCKS

RIGHTS OFFERS

TRADITIONAL OPTIONS

● First Dealings May 8 ● Last Dealings May 18 ● Last Declarations Aug. 2 ● For settlement Aug. 13

For rate indications see end of London Share Service

LONDON TRADED OPTIONS

THE WEAKNESS in London equities yesterday was reflected in derivatives trading, with the futures market giving up some of its lead over the cash index, while the FT-SE index options were less active.

The June FT-SE futures contract began the day with a premium of just more than 30 points above the underlying index, as some of the heavy selling of FT-SE calls during the previous day filtered into the market.

On Monday Hoare Govett sold around 3,500 May 2,200 calls, and yesterday sold a further 1,000. The market makers that bought the calls hedged their positions by selling FT-SE futures.

Dealers said this liquidation of futures had depressed prices. In addition, the absence of a recent large buyer of futures from the market also eroded the premium.

At the close, the June FT-SE stood at 2,246, down 8 points on the day, and at a premium of 36 points to the cash index. But in spite of yesterday's erosion of the futures market's lead, it still stood more than 10 points above fair value.

In the options market, a total of 9,284 FT-SE contracts changed hands in a slower two-way market, and was divided between 5,512 puts and 3,772 calls. The May 2,200 calls, at 1,134 contracts, was the busiest.

Total options turnover stood at 34,701 contracts, of which 19,491 were calls and 15,210 were puts. This compared with 37,862 in the previous session.

Dealers said the current level of turnover, which averages around 35,000 a day, remained too low to support the number of market makers. One trader observed: "We're just waiting for others to go. But the problem is that withdrawals cut liquidity."

In a novel move, Barclays de Zoete Wedd executed a programme trade for a UK institution, which involved the sale of around 3m shares in 12 FT-SE stocks and buying between 250 and 300 calls in the same companies.

The transaction would allow the institution to profit from the recent rise in share prices.

Advance to £565m at top end of City expectations, and current year forecast raised

All-round improvement at Allied-Lyons

By Philip Rawstorne

ALLIED-LYONS, the food and drinks group, satisfied the market yesterday with pre-tax profits for 1989-90 of £565m, a 12.5 per cent increase on last year's £502m, and reflecting solid progress across all the group's activities.

Mr Richard Martin, chief executive, used the occasion to dampen speculation about Allied's future in the brewing industry after the Monopolies and Mergers Commission shake-up.

"The experience of Grand Metropolitan and Elders confirms our view that there is little to be gained and much to be lost by an early and and public response to the new situation."

Allied was ready to act decisively when the time was right, he said. "To act prematurely would be folly."

The results, at the top end of analysts' forecasts, included a £6m finance charge but no contributions from the Whitbread spirits business and Dunkin' Donuts chain, acquired during the year for a total £726m.

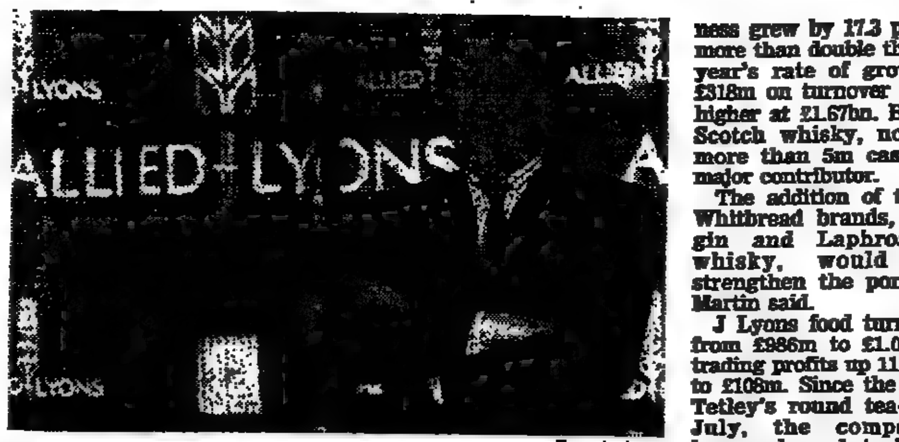
Those acquisitions raised Allied's gearing to 78 per cent but recent disposals – again stripped out of the figures – of Embassy Hotels, J Lyons Catering, and Normand motor dealers, have now reduced it to 70 per cent.

Earnings per share rose 9 per cent from 43.7p to 47.7p. A final dividend of 11.3p, 13 per cent higher, is proposed, making a total of 16.95p (15p).

It is intended to offer shareholders the opportunity of taking the dividend in shares instead of cash.

Group turnover increased from £4.5bn to £4.7bn. Allied Breweries contributed £1.7bn, up 5.6 per cent, and achieved a trading profit growth of 14.3 per cent to £232m.

Allied pubs recorded a 36 per cent increase in food sales, and managed houses raised turnover by 20 per cent.



Tony Andrews
Richard Martin: dampened speculation about Allied's future in the brewing industry following the MMC report

Tetley Bitter and the group's other main beer brands all increased share, and overall sales volume was ahead of the previous year. Beer volumes have shown another 2.6 per cent rise in the first nine weeks of the current year, with Tetley gaining business as a "guest" ale.

Trading profits of the HW-AV wines and spirits business grew by 17.3 per cent – more than double the previous year's rate of growth – to £318m on turnover 7 per cent higher at £1.67bn. Ballantine's Scotch whisky, now selling more than 5m cases, was a major contributor.

The addition of the former Whitbread brands, Beefeater gin and Laphroaig malt whisky, would further strengthen the portfolio, Mr Martin said.

J Lyons food turnover rose from £986m to £1.08bn, with trading profits up 11.3 per cent to £108m. Since the launch of Tetley's round tea-bags last July, the company had increased market share by 4 per cent and was now challenging Brooke Bond for market leadership.

Overall, some 55 per cent of group profits were now coming from overseas markets.

Analysts lifted forecasts for Allied's pre-tax profits for the current year to around £635m.

Vaux up 19% to over £14m

By Philip Rawstorne

VAUX, the brewing and hotels group, yesterday reported interim pre-tax profits of £14.12m, up 19 per cent and in line with market forecasts.

The outcome, for the 24 weeks to March 17, included a £1.45m contribution from Vaux's associate, Tyne Tees Television, half coming from the sale of TV Times.

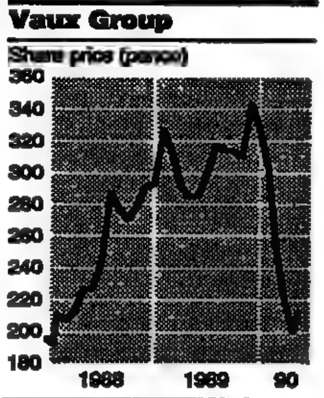
Mr Paul Nicholson, chairman, said the outlook for the year was promising, but cautioned: "There are uncertainties as to how buoyant business in some hotels may be."

Current occupancy was up to expectations but the weekend breaks business had levelled off and some corporate seminars and conferences had been reduced in scope or cancelled.

Turnover increased by 10 per cent to £110.59m, and trading profits were up 22 per cent to £13.74m. An interim dividend of 2.98p (2.59p) is payable from earnings per share ahead nearly 16 per cent to 8.16p.

Swallow Hotels increased trading profits by 13 per cent to £6.14m in spite of major redevelopments which put 10 per cent of rooms out of commission.

Vaux Group



Mr Nicholson, confirming that he was still looking for bargain acquisitions, said occupancy rates were running ahead of last year but regional variations were emerging.

Brewing profits rose almost 15 per cent to £4.5m in spite of the loss of supply contracts to Tesco. Draught beer volumes were marginally lower but trading levels were now comparable to those during last year's good weather. Trading profits of the pub estate were 22 per cent ahead at £1.97m.

The recent £11m acquisition of 55 pubs increased the estate to more than 600 pubs, and further purchases are planned.

COMMENT

After being "punted more often than the ball at Twickenham", as Paul Nicholson puts it, Vaux's share price is now languishing in touch. It seems likely to remain there at least until the future of Queens Moat's 9.6 per cent stake is resolved. But Vaux has come through an active period of acquisitions and disposals with both its hotel chain and its pub estate shrewdly strengthened. It is currently bidding for another 35 pubs and looking for further hotel bargains. Caution about the prospects for the hotel business is balanced by a better than expected performance on the brewing side after a sluggish start – turnover in some of the recently acquired pubs is 10 per cent up. If there is nothing to get excited about, equally City analysts see no particular worries. Full year profit forecasts remain unchanged at about £36m, a prospective p/e of 10.

LUI board meets in final effort to salvage company

By Patrick Cockburn

THE BOARD of London United Investments, the troubled insurance group, was meeting yesterday in a last ditch effort to salvage the company, which needs at least £75m to meet claims.

Efforts by major insurance brokers led by Sedgwick Group and Marsh & McLennan have failed to create a rescue vehicle for LUI in the six weeks since its shares were suspended.

Mr David Rowland, chairman of Sedgwick Group, said yesterday that the brokers were continuing their efforts but had so far failed to produce a solution to LUI's problems.

Leading brokers and insurance companies said they did not believe reports of a £120m lifeboat for LUI. Commercial Union, the UK composite, mentioned as a potential participant in the rescue plan, yesterday denied any knowledge of the scheme.

LUI's shares were suspended in March when the consulting actuaries Tillinghast said that six subsidiaries of LUI did not have enough reserves to meet future claims. The DTI ordered them to stop paying claims and Walbrook Insurance, LUI's main underwriting arm, to stop writing new business.

Mr Peter Wilson, chief executive of LUI, says that subsequent draft reports from Tillinghast reveal that LUI needs an extra £75m to £100m to top up its reserves.

The problem for potential rescuers is that even if brokers and insurance companies were prepared to give financial support of this magnitude to LUI the long-term claims on the group might soon come to exceed the Tillinghast figure.

HS Weavers, a LUI subsidiary, was the largest writer of US liability business in the London market. But professional indemnity, medical malpractice and environmental hazard insurance written through Weavers continues to produce heavy claims.

An attempt by Anglo American, which took 45 per cent of Weavers' business, to take over the running of Weavers foundered in April when LUI discovered that it would receive little benefit from the deal.

B&C to present survival package to bondholders

By David Owen

BRITISH & Commonwealth Holdings, the troubled financial services group, is to present its survival plan to bondholders at a meeting this afternoon.

It will be the next stage of the company's campaign to curry favour among lenders for its proposals.

The plan was presented on Monday to the company's principal bank lenders at Barclays' Lombard Street offices. One of the banks represented at the meeting characterised the mood as "one of pessimism more than euphoria."

Holders of a £230.4m issue of 10.5 per cent unsecured loan stock, which ranks in the top tier of B&C's debt, are understood to be dissatisfied with the company's proposals.

In addition, some holders of a lower ranking £320m issue of convertible unsecured loan stock (CULS) have already written to the designated trustee to demand immediate repayment.

A spokesman for Royal Exchange Trust, the group appointed as attorney for the CULS earlier this month by trustee Law Debenture Corporation, confirmed this week that some such demands had been received, but said that the number was "not that significant."

Under the covenants of the stock, were holders of 20 per cent of the CULS to write in B&C would be asked to repay the entire issue at par, or face the prospect of being put into liquidation.

B&C's proposals, drawn up by SG Warburg, the merchant bank, are thought to require senior lenders to take a 25 per cent write-down on their debt, amounting to £175m. This written-down portion would be converted into a combination of preferred and ordinary shares.

It is thought that the write-down proposed for the CULS holders could be as much as 70 per cent which would also be convertible into equity.

Bondholders' response to the proposals is likely to depend on both the mix of securities they hold and their assessments of B&C's break-up value.

Some analysts estimate this at as much as £1.1bn – implying that there would be enough to repay both first and second tier lenders in the event of liquidation.

Government concern over pressure to stop BTR bid

By David Owen

THE BRITISH Government expressed concern to the Bush administration in Washington over the campaign to derail BTR's ultimately unsuccessful $1.64bn (£1.01bn) bid for Norton Company of Massachusetts.

In response to a letter to Mr Douglas Hurd, the Foreign Secretary, from Mr Tam Dalyell, the Labour MP, Foreign Office minister Mr Timothy Sainsbury stated that "both the DTI and the British Embassy in Washington have stayed in touch with BTR and the Administration over the past few weeks.

"We have also expressed our concern at the pressure being put to halt an unwelcome bid," he continued. "The Administration responded in a very reassuring way."

Last month Norton submitted to an agreed $2bn (£1.2bn) bid from Saint-Gobain of France, having waged a bitter fight against BTR's hostile $75 a share offer.

Resistance included the rushing through the Massachusetts legislature of a bill specifically designed to thwart BTR by restricting the number of Norton boardroom seats it could contest at the company's annual meeting.

The Massachusetts delegation in Washington, backed by more than 100 other congressmen, also urged President Bush to investigate the UK industrial conglomerate's bid on national security grounds.

Norton is the world's leading manufacturer of abrasives.

McAlpine chief steps down after poor results

By Andrew Taylor

MR ROBERT (Bobby) McAlpine is to step down as chief executive of Alfred McAlpine following a series of disappointing results at the UK building and civil engineering group.

Mr McAlpine, who will remain executive chairman of the group, will be replaced by Mr Graeme Odgers who until recently was group managing director of British Telecom.

The construction company said Mr McAlpine was relinquishing the position of chief executive to concentrate on the strategic development of the group. McAlpine family interests own about 30 per cent of the company.

Mr McAlpine is understood to have been under pressure from City institutions and from fellow directors to strengthen the top management of the group.

He said yesterday, however: "This was my own idea. Like chairman of other large diversified construction companies I recognised that it was becoming increasingly impossible to perform the job of both chairman and chief executive adequately. I got in touch with Mr Odgers as soon as I knew he was available. I am totally delighted to have him on board."

Between 1978 and 1986 Mr Odgers worked for Tarmac, Britain's biggest diversified construction and building materials group. He became Tarmac's managing director in 1983. Before that he was finance director.

He resigned from British Telecom earlier this year after disagreements over plans to restructure the group.

Alfred McAlpine ran into problems in the late 1980s as result of a series of loss-making UK road contracts won between 1986 and 1988.

In the 12 months to end-October 1988, pre-tax profits fell by 35 per cent to £20.47m at a time when rival construction companies were announcing record results.

The company, which has since reorganised its contracting businesses and appointed new management to its concrete block making interests, staged a modest recovery in the following 12 months when pre-tax profits increased by 15 per cent to £23.5m.

The group, however, took an extraordinary charge below the line of £7.75m. This partly arose from losses incurred from retreating from housebuilding in the US.

Analysis loss

Analysis Holdings, an electronic publishing company which came to the Third Market at the end of last year, reported a loss of £3.59m in the year to the end-March. The company said it was ahead of the forecast in its prospectus last year. Gross profit margins were also above expectations on turnover of £1.17m. The loss per share was 6.48p.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres-ponding dividend	Total for year	Total last year
Addison Consult	fin	0.1†	July 9	0.8	0.8	1.4
Allied-Lyons	fin	11.3‡	-	10	16.95	15
Apollo Metals §	int	1	July 10	0.67	-	2
Concentric	int	3.37†	July 2	2.81	-	9.35
English Intl Tst	fin	2.2	-	1.95*	3	2.7*
Hanson	int	3	July 20	2.5	-	8.5
Huntingdon Intl	int	0.8	July 16	0.7	-	2.3
Jermyn Invest	fin	3	June 22	2.5	3	2.5
Metro Radio §	int	1.5	July 3	1.25	-	3.75
Rechem	fin	6.5	July 12	6	10	8.5
Richards	int	1.07	-	1	-	3.75
Sainsbury (J)	fin	4.35	-	3.55	6.1	5.05
Vaux	int	2.98†	July 2	2.59	-	7.04
Warner Howard	fin	2.94	July 9	2.45	4.5	3.75

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. ‡Carries scrip option.

Warner Howard nears £5m

By Vanessa Houlder

WARNER HOWARD Group, a laundry equipment and hand dryer supplier, yesterday announced a 10 per cent rise in pre-tax profits from £4.2m to £4.7m for the year to February 28.

Rental income from warm air hand dryers increased by 29 per cent and laundry rental income rose by 8 per cent. Margins on direct sales were affected by competition and adverse currency movements, but rental contracts continued to grow with satisfactory margins, the company said.

The year was marked by an increase in the new rental contracts won from local authorities, educational establishments and hotel groups, it said.

The service and supplies division showed a 37 per cent increase in profits.

Mr Ronnie Hooker, chairman, said that with no gearing, positive cashflow and long term rental contracts linked to the RPI, Warner Howard had a sound base from which to expand.

The group has reached an agreement with the World Dryer Corporation of America to form a joint venture, managed by Warner Howard, to market World's warm air hand dryers throughout Europe. Mr Hooker believed the opportunities in Europe were great.

Turnover increased by 9 per cent to £16.3m (£14.9m). After an increased tax charge, earnings per share rose from 12.55p to 13.51p. A final dividend of 2.94p makes a 4.5p (3.75p) total.

The share price closed down 4p to 145p.

Schroder Wagg criticised

The Takeover Panel has criticised J Henry Schroder Wagg over a breach of the Takeover Code during the bid battle between Midsummer Leisure and European Leisure. On May 4, as the bid entered its final week, Schroders briefed a Sunday newspaper and talked to four other newspapers about a defence circular that it had helped prepare but that had been officially embargoed until May 5.

Samuel Montagu, European's financial advisers, were not immediately given a copy of this circular and only received one after lodging a complaint with the Panel executive.

UK COMPANY NEWS

Interim results buoyed by six months' contribution from Gold Fields

Acquisitive Hanson ahead 28% to £570m

By Nikki Tait

HANSON, the UK-based conglomerate which is currently fighting for control of Peabody, the US coal miner, yesterday announced profits before tax of £570m in the six months to end-March.

That compared with £447m a year earlier and was in line with City expectations.

The 28 per cent advance was helped by the inclusion of a full six months' results from the Consolidated Gold Fields businesses, acquired by Hanson via a £3.5bn takeover of the mining investment house in August, plus a near-doubling of net interest earned.

Nonetheless, in terms of fully diluted earnings per share there was still a 12.7 per cent advance to 8.9p.

The interim dividend is being lifted by 0.5p to 3p – Hanson has already forecast a 22 per cent dividend increase for the year.

Although the figures indicated difficult trading conditions for some of Hanson's businesses – bricks in the UK and some of the consumer companies in the US – the overall numbers were greeted fairly warmly by analysts. Hanson's shares were unchanged at 227p, with most forecasters leaving full-year predictions unaltered at about the £1.3bn mark.

At the trading level, first half profits increased from £387m to £459m, on sales of £3.62bn (£3.77bn).

Mr Martin Taylor, Hanson's vice-chairman, declined to break out the contribution from Consolidated Gold Fields, saying that its individual businesses were now spread around various divisions.

Even so, the divisional picture suggested mixed fortunes. On the UK consumer side, operating profits rose to £146m (£134m) with British Ever Ready showing increased figures, and Imperial Tobacco also producing "good financial results".

By contrast, the UK building products side would have shown a profits drop but for the inclusion of ARC, formerly part of Gold Fields.

Mr Taylor said that year-on-year sales were 40 per cent lower at Hanson's London Brick subsidiary, and that redundancy costs here amounting to "several millions" had been taken above the line.

Overall, this division made £55m (£46m). Profits from the UK industrial interests rose to £78m (£42m).

In the US, only the industrial division showed an advance, up from £67m to £114m. Gold Fields Mining Corporation made its first full contribution and SCM Chemicals also fared well.

In US building products, a gain by Kaiser Cement was offset by lower profits from Hanson Lighting and the overall profit was unchanged at £35m.

On the consumer side, problems at Smith Corona, plus the fact that Hanson now only owns 48 per cent of the company, was largely responsible for profits fall to £31m (£47m).

The conglomerate's financial position, however, strengthened further, with net interest earned in the six months rising from £60m to £111m. Cash in the bank stood at £6.37bn at the halfway stage, easily outstripping debt of £5.45bn.

In his statement, Lord Hanson, chairman, said that the group would capitalise on this position, coupled with its "reputation within the investment and banking community" in order to "evaluate acquisition opportunities that will augment internal growth and provide continuing profitability."

As far as the Peabody situation is concerned, Mr Taylor had little to add, saying that the ball was in the court of Amax, the rival bidder. Hanson already owns 45.03 per cent of Peabody and is currently leading in the auction.

Thomson-CSF in line to buy MEL

By David White in London and Laura Raun in Amsterdam

PHILIPS, the troubled Netherlands-based electronics group, is understood to be close to a deal to sell MEL, its British defence subsidiary, to Thomson-CSF of France.

The state-controlled French company, Europe's largest military electronics manufacturer, has emerged as the prime contender for MEL, although Philips has also continued to hold talks with Westinghouse of the US, which was an earlier candidate, and with another US group.

Thomson-CSF has already taken over the bulk of Philips' European defence interests, in a deal concluded in January.

Philips urgently needs the MEL sale proceeds to help boost its sagging profits. Earnings from normal business operations are expected to drop in the second quarter.

In the first quarter, only a Fl 330m (£106m) extraordinary gain from the sale of other defence activities to Thomson-CSF kept net income from plunging.

The earlier purchase comprised an 80 per cent stake in Hollandse Signaalapparaten, the group's flagship military electronics company, a 49 per cent share of MBLE, its Belgian defence unit and the defence activities of TRT, its French subsidiary.

These three units between them account for annual sales of about £400m. Financial details of the purchase were not disclosed.

MEL, based at Crawley, West Sussex, has recently been a profitable exception in an otherwise troubled Philips defence division. It has about 1,300 employees and annual sales of about £80m. Last month it beat Racal to a £50m contract to supply advanced electronic sensors for the Royal Navy's second batch of Type 23 frigates.

Thomson-CSF did not include MEL in its negotiations with Philips last year, when it was also bidding (initially in a joint move with British Aerospace) for Ferranti International of the UK.

The French group pulled out of the bidding for Ferranti just 10 days after its deal for the other Philips units was closed in January. Ferranti's key radar business was subsequently bought by the General Electric Company.

The sale of MEL will virtually complete Philips' exit from the defence business, apart from its remaining stakes in the Dutch and Belgian companies and its US subsidiary Magnavox. Philips has been holding talks with potential US buyers of Magnavox, but so far without success.

Its Swedish offshoot Philips Elektronikindustrier was sold last June to Bofors, the armaments arm of Sweden's Nobel group.

Ashley Ashwood

Lord Sainsbury, chairman of J Sainsbury, at the Nine Elms store in south London yesterday

Concentric advances 13% despite uncertain demand

By Jane Fuller

IN SPITE of uncertain demand in many areas of its business, Concentric, the Birmingham-based components maker, increased pre-tax profits by 13 per cent to £4.45m in the six months to March 31.

Sales advanced by less than 6 per cent to £55.72m.

Mr Tony Firth, chairman, said the disruption of demand in some markets had been "brought on partly by government." He cited the white goods market, hit by the squeeze on consumer spending, as an example. "The white goods industry is on the floor and we are a major supplier to it."

Another area affected included process control equipment supplied to the building industry – such as valves for heating and ventilation.

In aluminium, there had been fierce competition from US smelters because of slack demand in that country's automotive industry.

The difficulties had, however, been offset by buoyant markets for automotive components, plastic mouldings, petrochemical instruments and confectionery moulds.

Overseas sales – 25 per cent of the total – has also held up well. Benefits were beginning to come through from a factory opened in the US last year.

Last May, Concentric made a one-for-seven rights issue to raise about £7m towards its capital spending programme, which is expected to total nearly £13m by the end of this year.

A re-equipped aluminium foundry had just come on stream and new plant had also been installed at various machining companies. Mr Firth said most of the benefits were yet to come from this programme.

No balance-sheet details were given at this stage, but he said the company tended to be a receiver of interest rather than a payer.

In the wake of the rights issue, earnings per share showed modest growth to 13.42p (13.02p). The interim dividend is lifted to 3.37p (2.81p).

Concentric's share price fell 4p to close at 261p yesterday.This compares with the rights issue price of 260p and a high since then of 319p recorded last July.

Alexanders just ahead at £0.7m

Pre-tax profits at Alexanders Holdings, the Glasgow-based Ford main dealer, rose 5 per cent from £673,000 to £707,000 for the six months ended March 31.

Turnover was 25 per cent ahead at £43.6m (£35m) and after tax of £191,000 (£181,000) earnings emerged at 1.264p (1.204p). The company does not declare an interim dividend.

Globe fires fresh broadside at predator

By John Thornhill

PASSIONS ARE running high in the investment trust industry over the British Coal Pension Funds' £1.03bn bid for Globe Investment Trust, and Mr David Hardy, Globe's chairman, has proved a master at arousing them.

In a fresh broadside yesterday against the pension funds, Globe published the results of a questionnaire it had sent to its 42,031 shareholders which, the company claimed, showed that the vast majority of respondents strongly supported the board's opposition to the bid.

Mr Hardy said he was delighted by this "enormous vote of confidence" in Globe and claimed that shareholders clearly rejected "this misconceived and unwelcome bid."

Barclays de Zoete Wedd, which acts as financial adviser to the British Coal Pension Funds, was however dismissive of the questionnaire.

Mr Malcolm Le May, a director of BZW, said: "Our offer is generous and enables shareholders to choose either cash, an attractive debt instrument or a continued participation in the equity market. Publishing an out of date poll really served little point. Let the markets decide."

Globe sent out its questionnaire, listing six questions, on April 26 and by May 10 it had received 12,039 replies. But only about 26 per cent of these were received after the funds had unveiled their amended bid proposing a loan stock alternative to its 191p cash offer and also the option of switching into an index-tracking investment trust.

Globe claimed that 11,796 respondents – representing 28.1 per cent of the Globe's shareholders and 10.5 per cent of its equity – had agreed that they did not want Globe to be taken over by the pension funds.

Globe estimated that this represented almost a third of the trust's private shareholders.

The funds speak for 33.8 per cent of Globe's equity.

Some of Globe's inquiries might, however, have been adjudged to be leading questions in a court of law. For example, it was perhaps not too surprising that an overwhelming majority of the respondents agreed with the statement: I do not want to have my savings in Globe shares reduced by Capital Gains Tax.

- Globe sent its submission to the Office of Fair Trading on Monday night in an attempt to have the bid referred to the Monopolies and Mergers Commission. Almost 11,000 respondents to Globe's questionnaire thought the authorities should intervene.

Metro Radio advance puts 11p on the share price

By John Thornhill

Metro Radio Group, the Newcastle-based independent radio company, yesterday reported a strong advance in interim pre-tax profits, defying the despondency of the sector.

In the six months to end-March profits advanced 35 per cent from £693,000 to £937,000. Turnover was also firmly ahead at £3.87m (£3.09m).

The announcement was welcomed in the City and Metro's shares rose strongly to 147p, up 11p.

In spite of the slowing rate of advertising growth in the UK, Metro reported a 18.5 per cent advance in advertising revenue with particularly strong 24 per cent growth in local advertising.

Metro has been placing increasing emphasis on developing local revenue which now accounts for about two thirds of the total.

The USM-quoted company, which operates three radio stations – Metro FM, TFM, and Great North Radio – said it had the best audience figures in the independent radio network.

An independent survey covering the period from October to December 1989 showed that 54 per cent of the adult population in the north east and North Yorkshire listened to Metro Group's programmes for an average of more than 16 hours each week.

Metro said the current year had started well. Advertising revenue in April was more than 58 per cent higher and May had started very strongly.

Mr Neil Robinson, managing director, forecast that there would be a shake-out in the industry. "This is a year of opportunity for us. There will be a differentiation in quality between the good, the bad and the ugly players," he said.

Addison Consultancy turns in £368,000 loss

By Alice Rawsthorn

ADDISON Consultancy Group, which recently shed its advertising and design interests to concentrate on market research, yesterday disclosed a pre-tax loss of £368,000 for 1989 compared with pre-tax profits of £2.14m in 1988.

The losses were incurred by the non-continuing businesses. The core market research companies were profitable during the year, albeit at a lower level than in 1988. These companies experienced a fall in pre-tax profits from £1.62m to £816,000 chiefly because of the costs incurred in European start-ups and new long term projects.

Mr Tony Cowling, chief executive, said: "Our ongoing businesses are profitable and cash generative. We had a lot of problems last year, but they are now behind us." Addison's shares slipped by ¾p to 25¼p yesterday.

Group turnover fell to £45.89m (£80.93m). Addison paid a lower tax charge of £58,000 (£1.07m) and received an extraordinary credit of £526,000 (debit of £1.4m) on disposals. It made a loss per share of 0.68p (earnings of 1.77p). The board proposed a cut in the final dividend to 0.1p (0.9p) making a total of 0.6p (1.4p).

During the year Addison sold Chetwynd Haddons, an advertising agency, and Streets, a financial public relations consultancy. It also sold its design companies to a management buy-out team.

It has been left with a core business of market research consultancies specialising in medical, consumer and financial research. The proceeds from the disposals wiped out its debts and have left it with net cash of about £1m.

Mr Cowling said the level of demand for market research had slowed down in the final quarter of 1989 and had continued to be sluggish in the first quarter of this year.

He added that the European start-ups had since broken even and there had been a modest improvement in the general state of the market. He expected a return to profits growth this year and Addison plans to expand its European interests by start-up and acquisition.

Molins accuses Leucadia of covert manoeuvrings

By Andrew Hill

MOLINS yesterday accused Leucadia National Corporation of "covert manoeuvrings" and of trying to create maximum uncertainty in the market during the latest delicate stages of its £76m bid for the manufacturer of cigarette machinery.

Shares in Molins slipped 10p to 269p after Leucadia, an elusive US financial services and manufacturing group, warned it would not increase its 252p-a-share hostile offer unless it managed to buy more shares in the company. Leucadia did not specify the minimum number or price of the shares which it might buy.

However, Molins said Leucadia's broker, Olliff & Partners, had approached certain institutional shareholders in Molins asking if they would sell at prices up to 275p. Olliff would neither confirm nor deny the allegation. Molins said it would still reject an offer at that price.

Leucadia's announcement seems unlikely to restrict the predator's options today, when it has its last opportunity to revise the offer for Molins – the third hostile bid for the company in three years.

Border TV profit warning

By John Thornhill

BORDER TELEVISION, the USM-quoted IBA contractor for Cumbria, warned yesterday that its annual profits would be below those of the previous year due to a decline in advertising revenue and exceptional restructuring costs.

The announcement prompted a 4p fall in the company's share price to 37p in spite Border saying that its final dividend would be maintained.

Border has also been hit by redundancy costs which will be treated as an exceptional cost. The company has slimmed down its workforce from 243 to 160 and will incurr a charge of £220,000 resulting from the closure of its London sales office.

Sedgwick edges ahead to £42.5m in first quarter

By Patrick Cockburn

SEDGWICK GROUP, the international insurance broker, recorded a small increase, from £41.8m to £42.5m, in pre-tax profits for the first quarter of 1990 although insurance premiums in the US remained depressed.

Mr David Rowland, chairman, said there was still no sign of the long expected upturn in premium rates internationally. "In North America, market conditions are unchanged and premium rates in some classes have continued to weaken."

Discouraged by Sedgwick's continuing pessimism on US property/casualty rates the market marked the group's shares down sharply to 250p, a fall of 15p. In 1989 half of Sedgwick's turnover and a quarter of its pre-tax profits were in the US.

Mr Dick Page, chairman of Sedgwick James, the international retail broking division, said that in the US the proportion of the company's income coming from fees as opposed to brokerage commission had increased from 38 per cent to 43 per cent over the last year.

Fee income has the advantage for Sedgwick of not fluctuating with premium rates as happens with commissions which are a percentage of premiums. The disadvantage is that the company would be slower to benefit from any increase in rates.

Speaking of longer-term trends in the US, Mr Page said that the number of captive insurance companies, through which companies insure themselves, was still increasing because buyers were more sophisticated than five or ten years ago.

The attitude of companies to the insurance market had changed. "They don't like to be in a market they don't control. Cheapness has nothing to with it. When prices are high they retreat to their captives. When they are low they go to the market, Mr Page said."

He confirmed that the price of primary insurance was still declining, though not at the same rate as last year, adding that this was not surprising since insurance companies still had $100bn (£60bn) in surplus to put into the market.

In the UK and Europe Mr Rowland said there was encouraging revenue growth in retail business and particularly in the financial services consultancy sector.

Both revenues and underlying costs rose 5 per cent. Costs were expected to increase further after pay increases to Sedgwick's UK staff later in the year.

On HS Weavers, the underwriting agency owned by London United Investments, the shares of which were suspended at the end of March, Mr Rowland said Sedgwick was having no difficulty placing business, which previously went to Weavers, elsewhere.

He was less optimistic about the future of Weavers, previously the largest writer of US liability business in the London market. Sedgwick and Marsh & McLennan, the largest US broker, have been leading rescue attempts.

According to Mr Peter Wilson, chief executive of LUI, a draft report by Tillinghast, the consulting actuaries, showed that six LUI subsidiaries need an extra £75m to £100m in reserves to meet future claims.

In spite of suggestions that the UK insurance industry as a whole might move either to rescue Weavers or at least to protect policyholders, Sedgwick and Marsh & McLennan so far have little to show for their efforts.

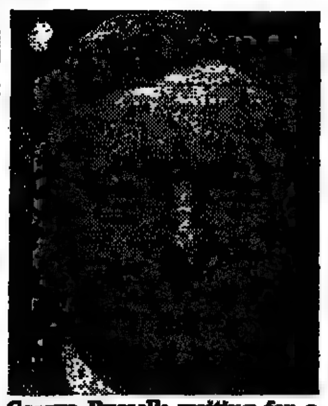
Earnings per share were unchanged at 6.4p.

Marley warns on profits growth

By Andrew Taylor, Construction Correspondent

MR GEORGE Russell, chairman of Marley, the diversified building materials and automotive components group, yesterday warned shareholders not to expect further profits growth until UK interest rates fell.

Group pre-tax profits last year fell by a fifth from £70.2m to £56.2m. This was in spite of a 21 per cent increase in overseas profits from £19.9m to £24.1m.



George Russell: waiting for a fall in interest rates

Speaking yesterday at the group's annual meeting, Mr Russell said the health of the UK housing and commercial property sectors were critically important to Marley.

"We cannot expect to see growth in overall profits until the very high level of interest rates in the UK eases and provides some encouragement for new housing, refurbishment and commercial building" he said.

Marley's overseas businesses, however, were expected to perform well and provide a degree of balance against the downturn in the UK, he added.

Taking a turn to the rights

Vanessa Houlder looks at the difficulties of raising cash in the present climate of falling share prices

IN THE stormy markets of 1990, enthusiasm for rights issues has been at low ebb. Low acceptance levels and falling share prices have deterred many would-be fund raisers.

Yet a recent spate of rights issues by small companies has shown it is possible to drum up institutional support, particularly when a change of direction is promised under new management.

In the past fortnight, for example:

- Casket, a loss-making textiles company called a £5.3m issue to help reduce gearing and finance acquisitions. This followed a change of management in January, after members of a consortium, including York Trust, the USM-quoted financial services group, joined the board.
- Petrocon Group, an engineering concern restructured in February 1989 by a consortium led by Hillsdown Investment Trust, a development capital arm of Hillsdown. It has launched a £8.8m issue to finance the acquisition of two engineering companies.
- SI Group, the engineering company where the Abdullah brothers took control, made its first move towards its goal of becoming a construction and building materials group. The acquisitions would be funded by a £2.5m issue.
- Ex-Lands, the Nigerian mining company turned Saatchi investment vehicle, has just announced a £8.6m issue to fund a French leisure complex and other projects. This follows the arrival in March of Graham and Robert Bourne, who took control of half the Saatchi brothers' 29.9 per cent stake.

In all these cases, the key to success in raising money has been the reputation of the management team, who have won their spurs in other companies. For example the Bourne brothers consider they can call on the support of institutions who made money from Local London, their USM-quoted property company, which was sold to Priest Marians when the property market was at its height.

With or without new management, debt reduction was the most common cause of rights issues in the first quarter this year, accounting for 40 per cent of the £1.6bn total, according to Beeson Gregory, the brokers.

Nonetheless, given the ravages of high interest rates, there have been surprisingly few rights issues aimed at propping up battered balance sheets. Mr Mark Cusack of Hoare Govett said: "At this stage of the economic cycle you would expect more distress calls. I am quite pleasantly surprised by the resilience of the corporate sector."

In the view of Mr Mitchel Teager, an analyst on smaller companies at Albert E Sharp, the paucity of rescue rights issues is due to the unwillingness of institutions to invest in ailing companies which may not yet have hit the bottom of their cycles. "Institutions are loathe to throw good money after bad," he said.

At the other end of the scale, there are financially secure companies seeking funds in order to exploit acquisition or expansion opportunities.

The oil sector is one such seeker of new capital. Earlier this month, Tullow Oil launched a I£5.85m issue to expand its exploration programme. Midland & Scottish, the best-performing share of 1990 with a 15-fold increase in value, launched a £149.2m issue to buy the world's largest floating oil production facility. In April, Cairn Energy, an Edinburgh-based independent oil company, launched a £13.7m issue to reduce its borrowings and fund development.

Several cash-hungry companies in less popular sectors have also entered the fray. For instance, Allied Leisure, a tenpin bowling and nightclub group, proposed a £4.12m issue to fund expansion. Another company bucking its sector trend is Clinton Cards, a USM-quoted greetings cards company which is raising £6.4m to fund further expansion of its outlets.

But even if it is possible for companies of all descriptions to raise money on the stockmarket, it is by no means easy. One symptom of difficult market conditions is that discounts, the difference between the offer price and the share price before the announcement of the issue, have been deep, with those in the first quarter averaging 20 per cent.

ECC deal faces rough passage

By Kenneth Gooding, Mining Correspondent

ECC's proposed $520m (£310m) strategic purchase of Georgia Kaolin of the US, announced last week, does not face a smooth passage according to the Engelhard Corporation, one of ECC's main competitors in kaolin production.

"ECC is going to have trouble, particularly from customers in some sections of the market," predicted Mr Orin R Smith, president and chief executive of Engelhard, in London yesterday.

However, Engelhard itself would not overtly oppose the proposed deal. "We won't be jumping on tables and shouting against it", he said.

Mr Smith pointed out that the US anti-trust authorities would mainly be concerned with the comments of customers of the combined Georgia-ECC group. Other kaolin (china clays) producers would simply be expected to provide the authorities with market statistics.

According to UK analysts' estimates, Georgia has about 26 per cent of the US kaolin market, Engelhard 25 per cent and EEC America 9 per cent. Kaolin is used in a wide range of products but particularly in pigments for the paper-making industry.

Mr Smith suggested that ECC would have carefully thought through the anti-trust implications before getting involved in the auction for Georgia and would have some ideas about how to steer the deal through any examination by the US authorities.

"To some extent it is a gamble for them – but it might come off", he said.

ECC, formerly English China Clays, said the deal to buy Georgia from ABB Asea Brown Boveri – which acquired the business with Combustion Engineering of the US in 1988 – would give it prime reserves and broaden the group's product range and customer base. Significant synergies should be achievable, it suggested.

Apollo surges 76% to £1.2m

By Jane Fuller

APOLLO METALS, the Birmingham-based processor and distributor of aluminium plate and bar, has emerged from the gloom surrounding small companies to report a 76 per cent rise to £1.19m in pre-tax profit for the six months to March 31.

The shares gained 10p to close at 113p yesterday, giving the company a market value of nearly £13m, compared with £7.6m when it joined the USM in December 1988.

Through continuing to reduce debt, which stood at £2.5m after a management buy-out in 1985, interest payments fell to £71,000 (£106,000) in the first half.

Mr Clive Orford, deputy managing director, said Apollo was benefiting from being involved in growth sectors, such as aerospace – which accounted for about a quarter of sales – and medical equipment.

Where it was in sectors with a more patchy performance, such as defence and automotive, he said it was supplying successful niches.

Another reason for growth was the changing habits of customers. Their efforts to reduce stock and avoid the early machining stages, coupled with the move towards just-in-time manufacture, was generating custom for processors and distributors.

High interest rates even acted as a catalyst to this anti-stock holding trend, said Mr Orford.

Mr Bob Teare, chairman, said profit margins had been improved by better capacity utilisation, partly through increasing exports to 8 per cent of sales, and by adding more value to each piece of metal.

The company buys in high strength, specialist aluminium alloys from six main suppliers in various parts of the world.

Mr Teare said Apollo would continue to grow organically, particularly through overseas sales and by increasing the level of processing. The company would be most likely to seek a full listing when it wanted to use paper for a big acquisition.

Turnover rose by 45 per cent to £12.75m and earnings per share by 69 per cent to 6.6p. The interim dividend is raised 50 per cent to 1p.

Directors and some of the 110 employees own 40 per cent of the stock.

Second half recovery at Vivat

VIVAT HOLDINGS, the jeans and casual wear company, yesterday unveiled a much-improved performance in the second half of 1989.

The group – heavily restructured over the last couple of years – achieved operating profits of £2.2m, against losses of £10.11m in 1988 to confirm forecasts made by Mr Michael Cooper, chairman, at the time of the interim statement last October.

Increased interest charges, however, resulted in a pre-tax deficit of £1.15m. In the previous year, the group incurred losses of £12.68m at this level, £10.71m of which were attributable to discontinued activities.

Mr Cooper said all divisions were trading satisfactorily and that the group should show a profit in the current year. He anticipated further growth in continental Europe where Vivat was already well-established and also saw eastern Europe as an expanding market for the group's products.

Group turnover declined 12 per cent to £108.51m (£123.74m). The loss per share emerged at 2.8p, reduced from 30p in the previous year, but the directors are taking a conservative view on the resumption of dividends, last paid for 1987.

"We do not believe it would be appropriate to consider the payment of a dividend before being able to report a profit" Mr Cooper stated.

BAe's stake in SD-Scicon causes growing concern

By Alan Cane

SENIOR EXECUTIVES of SD-Scicon said yesterday that continuing uncertainty over the likely fate of the 25 per cent shareholding in the UK computing services company held by British Aerospace was beginning to hurt its commercial prospects.

They pointed to the termination last week of talks between SD-Scicon and Sligos, the French software house, which had been expected to lead to extensive collaboration within Europe, and to the decision of a West German customer to delay placing a significant contract with the company.

Mr Philip Swinstead, chairman, said: "We are losing business. BAe's indecision is starting to hurt the company."

The SD board feared that the stake might be sold to an unwelcome buyer who might want to break the company up or merge it with its own operations.

Among the computing services companies known to have been talking to BAe recently are Cap-Gemini-Sogeti of France, Europe's largest software and services company, and the Anglo-French Sema Group. Neither is thought to be acceptable as a shareholder to SD's management.

In a statement to the SD-Scicon annual meeting, held yesterday, Mr Swinstead reiterated that his board would prefer the BAe holding to be placed with a package of investors, preserving the company as the UK's largest independent software house.

He said: "The board and company management would vigorously oppose any attempt to acquire a controlling shareholding in the company unless on premium-terms to all shareholders which recognised the strategic value of SD-Scicon's underlying business while maintaining the company's independent development."

Following a two-year period of grace during which BAe undertook neither to buy nor sell SD-Scicon shares, the aerospace giant has been now been free to dispose of its stake for over a month but has made no move.

It is believed the delay is the result of a disagreement over policy within BAe's senior management. Some managers believe SD-Scicon should be sold outright while others believe BAe should retain an interest because of the value of SD's teams of software specialists.

There is already a serious shortage of skilled software staff in the UK that is certain to get worse in the next few years.

What is clear is that BAe has no intention of maintaining its minority stake in the company. The most likely outcome is a sale within the next few weeks to the highest bidder.

The delay is also thought to be partly a wish to see the price GEC/Siemens achieves for the sale of Hoskyns, the UK software house it acquired last year as part of the Plessey takeover.

Analysts are suggesting a price for SD of between 125p-130p. The shares closed 1½p higher yesterday at 83p.

SD made pre-tax profits of £7.2m in 1989 on sales of £283m after recording a £1m loss at the halfway mark.

Mr Swinstead, who has had a "defence committee" working on the shareholding issue for six months, yesterday said he would ideally like a period of grace to demonstrate that the company was financially back on track and to put together a package of acceptable shareholders to take the BAe stake.

ADT raises its interest in Christies

By Andrew Hill

ADT, the vehicle auction and security group, has increased its stake in Christies International, the auction house, to 17.6 per cent of the total equity – or 18.61 per cent of the ordinary shares.

ADT, headed by Mr Michael Ashcroft, announced it had bought 1.37m shares through ADT Retirement International Fund. At yesterday's unchanged closing price of 331p, the whole ADT stake is worth just over £100m.

A month ago, ADT appeared to rule out an immediate bid for Christies, when it said it had "no present intention" of making an offer unless a competitive situation arose.

NEWS DIGEST

Huntingdon rises 28% to £6.83m

HUNTINGDON International Holdings, which specialises in life sciences and engineering services, reported taxable profits 28 per cent higher in the half-year to March 31.

Profits rose from £5.34m to £6.83m, on turnover ahead from £34.45m to £45.85m.

The prospects for the second half were good and progress in the life sciences segment was expected to continue, directors said.

Progress in the engineering side continued to grow faster than life sciences but the exceptionally good results in the fourth quarter of last year presented a challenging target for the second half, they said.

Tax came to £1.44m (£934,000) resulting in earnings of 61p (50p) per 5p share. The interim dividend is lifted 0.1p to 0.8p.

Directors also said that discussions with shareholders of Southwestern Laboratories Inc regarding the possible acquisition of that company were continuing.

Property sale helps Jermyn to £1.69m

Jermyn Investment, a property and shares investor, announced a surge from £310,000 to £1.69m in pre-tax profits for 1989. Included was an exceptional profit from the sale of Landseer House in Leicester Square, London.

Earnings per share advanced to 50.68p (10.67p) and the dividend for the year is stepped up to 3p (2.5p).

Mr Gerald Newton, chairman, said the group was soundly based. Following the recent issue of convertible preference shares to Drayton Consolidated Trust, its capital base had expanded by £3m and all borrowings had been repaid except those related to construction finance on current projects.

Associated Farmers ahead at year-end

Associated Farmers, a Third Market-quoted arable farmer based in Norfolk, increased turnover by £100,000 to £437,000 and profits by £11,000 to £47,000 pre-tax for the year to end-November 1989.

Earnings emerged at 1.61p (1.38p) and net asset value per share at the year-end amounted to 80.7p (74.96p).

Richards slips 3% to £1.7m

Richards, a manufacturer of textile yarns, tufted carpets and knitted garments, slipped by 3 per cent to £1.7m pre-tax for the half year ended March 31. Turnover declined from £38.40m to £37.47m.

An extraordinary profit of £1.16m represented the surplus arising on the sale of the Spence Bryson head office building. The interim dividend is lifted to 1.07p (1p) from earnings of 5.07p (5.4p) per 10p share.

Canadian offshoot hits Mining Supplies

Problems with a recently-acquired Canadian subsidiary contributed to a 58 per cent fall in interim taxable profits at Mining & Allied Supplies.

The West Midlands-based engineer and engineering supplies distributor also blamed high interest rates and the change in the year end which brought two low performing months into this year's interim results.

Bearing Supply (Canada), purchased in May last year, reported a pre-tax loss of £221,000 (£19,000 profit) leaving the taxable result for the six months to March 31 at £167,000, against £396,000 for the six months to June 30 1989.

Mr Dan Slabbert, chairman, said that Bearing was on the verge of financial collapse when it was acquired.

The company had since been reorganised with the closure of its head office and the departure of a number of staff. The costs of £473,000 were taken as an extraordinary charge, leaving a loss for the period of £430,000 (£228,000 profit).

Turnover for the period was £13.62m (£9.97m). Earnings per share were 0.14p (0.8p).

Cresta to sell design arm to management

Cresta Holdings has agreed to sell Northern Communications Group, its public relations, print and design subsidiary, to management for up to £1m cash.

The sale means Cresta has nearly completed the programme of disposals aimed at focusing the Isle of Man-based company on its core nursing and retirement home operations. The group still intends to sell Cresta Publishing next year.

The group yesterday said it had agreed to sell NCG to management for an initial £805,000 paid in two instalments – £550,000 on completion and £55,000 in June 1991. A further £400,000 could be paid depending on certain criteria.

Cresta's liability to pay a deferred £1.8m under the original acquisition terms has been cancelled.

Last month Cresta agreed to sell Associated Trust Company, its trust and administration subsidiary, for £3.05m plus repayment of £450,000 in inter-company loans and interest.

English and Intl Trust assets fall

Net asset value per ordinary share of the English and International Trust declined from 170.65p to 139.1p over the year ending April 5 1990.

After-tax revenue emerged at £2.62m (£1.28m) for earnings of 3.03p (2.75p). A proposed final dividend of 2.2p makes a 3p (2.7p) total.

COMMODITIES AND AGRICULTURE

Australia's MIM starts up big lead/zinc mine

By Kevin Brown in Mount Isa, Queensland

MIM HOLDINGS, the Australian Coal and Metals Group, yesterday brought its long delayed Hilton mine into full production, 43 years after exploratory drilling work began.

Hilton is expected to produce 600,000 tonnes of lead/silver/zinc ore this year, rising to 1.6m tonnes a year over the next three years. The mine also has marginal reserves of copper.

Hilton is one of the biggest mines to be opened in the last decade and one of three major new mines in which MIM has an interest. The others are Cominco's Red Dog lead/silver/zinc mine in Alaska, which began operations at the end of last year, in which MIM has a 10 per cent stake; and the Porgera gold mine in Papua New Guinea, in which the group has a stake of 30 per cent.

The Hilton mine will extend the life of lead/silver/zinc production at the Mount Isa complex, which would otherwise begin to run down early in the next century. Combined production from the two mines is expected to reach 210,000 tonnes of lead and 250,000 tonnes of zinc per year within the next five years, compared with 180,000 tonnes of lead and 170,000 tonnes of zinc from the Mount Isa mine alone last year. Silver production is expected to remain steady at around 450,000 kg a year.

The group has also identified deep reserves of at least 30m tonnes of copper ore at Mount Isa, beneath the existing lead/zinc/silver ore bodies. These reserves are expected to be mined in the mid-1990s.

The Mount Isa complex accounted for more than 60 per cent of MIM revenue of A$1.8bn last year, and the development of the Hilton mine is regarded as vital to the long term future of the group. However, MIM has built up substantial investments in resource-related companies outside Australia, including 24.5 per cent of Asarco, the US metals producer, and 3 per cent of Metallgesellschaft, the West German metals group. MIM has also expanded its downstream activities by acquiring 50 per cent of the Ruhr-Zink zinc refinery and 33.3 per cent of the Rheinzink zinc products group in West Germany.

Sir Bruce Watson, chairman of MIM Holdings, said the Hilton mine and the deep copper reserves represented the start of a new generation of ore bodies at the Mount Isa complex, which was discovered in 1923. Mineral bearing ore was found at the Hilton site, 20 km north of Mount Isa, in 1947, but development was delayed several times by technical difficulties and price falls which made production uneconomic.

Sir Bruce said the development of the Hilton mine demonstrated the group's confidence in the future of zinc and lead production. The mine is part of an increase in Australian production of zinc which will make Australia the world's leading zinc producer within the next two years, ahead of Canada.

Peru strike almost total

By Sally Bowen in Lima

ALMOST ALL the 13,000 workers at Centromin, Peru's state mining group, had yesterday joined the strike which started on Monday.

Centromin's main and Peru's fourth largest copper mine, Cobriza, was shut down on Monday, along with the mines of Cerro de Pasco, Casapalca and Mahr Tunnel. The La Oroya smelter was also idle. Morococha's thousand miners, and all workers at the Yauricocha mine and concentrator, as well as those at the smallest installation, Andaychagua, who had reported for work on Monday, joined the strike yesterday.

Centromin, the country's biggest zinc, lead and silver producer, accounts for over a third of zinc and lead output, producing in 1989 some 217,000 tonnes of zinc from a national total of 597,000 tonnes and 72,000 of Peru's 192,000 tonnes of lead output. Centromin is also the country's leading silver producer, with 385,000 kilos last year (about 20 per cent of all Peru's silver) but accounts for only about 10 per cent of Peru's copper.

A Centromin official could not comment on the likely length of the strike. The company had been led to believe union leaders would accept the third quarter inflation-adjusted pay levels on offer, he said. The main problem was the government-imposed limit on wage rises. There was no immediate prospect of talks.

China's dairy shake-up has a long way yet to go

A special correspondent in Peking looks at efforts to tackle the many problems of the sector

AFTER A shaky period last year when farmers were killing their cows because they couldn't afford to feed them, prospects for China's dairy industry have begun to improve, according to western dairy experts.

"Farmers now have more access to grain, the number of cattle is stabilising, and milk production is advancing," one western observer said. "the backlash that started in the last part of 1988 and continued in 1989 has now stopped."

Satisfying farmers and consumers has become a top priority and since last year Peking has renewed its emphasis upon the importance of developing agriculture. Although the Central Government has raised the price at which it purchases milk from the farmers the retail price has been increased only marginal and remains low.

The provincial governments have now agreed that in exchange for delivery of a specified quantity of milk, farmers can now buy feed for their cows at subsidised state prices. Last year, farmers were forced to buy feed at free market prices after subsidies were cancelled in 1988. This move hit particularly hard in the northeastern province of Heilongjiang, where a quarter of the country's liquid and powdered milk is produced, and in the southern coastal province of Zhejiang, according to western observers. Some of the farmers sold their cows as meat.

Through the 1980s, prices for feed tripled, while the retail price for liquid milk rose 50 per cent, one dairy expert said.

In spite of this years's increase in the retail price, it still does not reflect the true production cost. Although consumer milk prices in Peking are higher and farmers now get a good price for their milk, the dairy processing plants are caught in the middle. The Government is determined to keep the retail price relatively low with the dairy plant forced to absorb the actual cost.

'The financial situation for dairy plants in China is almost hopeless'

"The financial situation for dairy plants in China is almost hopeless," said one western dairy expert. "With higher prices for the farmers and low prices for consumers, the Government is interested in making large groups satisfied."

The pricing system has also directly affected the quality of milk available to consumers. Payments to farmers are not determined by the freshness or hygiene standard of the milk, unlike Europe, where a low bacteria count in milk earns farmers a higher price. In China, the bacteria count in some places is four times what is acceptable in Europe, one western expert said. "Whether the milk is two days old or half water or fresh, the price is the same," one western observer said.

The retail milk price is set by the state and the dairies, which are subsidised by municipalities, are unwilling to pay more to farmers who produce better quality milk, because this reduces their profits and they cannot pass on the extra cost to the consumer.

The dairy industry also suffers from ignorance and poor hygiene.

While the industry is better developed in the north than in the south, where the weather is too hot for dairying to thrive, experts say many farmers lack basic knowledge about how to care for cattle and increase milk production.

Although hygiene is improving in the more sophisticated dairies in Heilongjiang, Peking, and Shanghai, it remains well below acceptable standards in more remote areas. One western expert who visited a dairy in the western province of Xinjiang said there were so many points of contamination after pasteurisation that he did not want to drink it.

The Chinese dairy industry also suffers from inefficiency. The country has nearly 3m milking cows, compared with about 800,000 in Denmark, but the yield from Danish cows is far greater. The quality of the feed Chinese cows receive is poor and those that stand outside in the winter produce little milk, observers say.

The industry also faces problems with the widespread, unregulated use of antibiotics by dairy farmers. Although in Peking, where a lot of milk is sold to foreigners, the amount of antibiotics given to cows is controlled, monitoring elsewhere in the country is erratic, and the tough restrictions governing antibiotic use in the European dairy industry do not exist in China.

Although effective in the treatment of disease in cattle,antibiotics can have a harmful effect on milk and produce side-effects in those who drink it. Antibiotics also make it impossible to add the bacteria to milk that enable yoghurt to be produced.

But farmers here must often sell the milk out of financial necessity regardless of whether antibiotics have been given to their cows.

All of these problems are compounded by the conflicts that exist between the Ministry of Agriculture, which owns the state farms, and the Ministry of Light Industry, which owns the dairies. In Heilongjiang, where there is competition between the two ministries, many issues involving the dairy industry remain unresolved. For example, students from one ministry have faced difficulties attending a dairy training centre operated by the other.

In an effort to help the Chinese cope with growing demand for milk and milk products, a number of foreign aid programmes are under way. Most of them are funded by Scandinavian countries, but one of the most visible is a project run by the European Community. It was originally begun in 1984 as a UN world food aid programme involving the delivery of milk powder and butter oil to six Chinese cities. Since the EC has taken it over it has been expanded to include an additional 14 cities.

'The biggest problem is to get a better quality of milk'

The commodities provided to the Chinese are converted into milk, which is then sold for the same price as locally-produced milk. Revenue earned from this milk is then used to develop the dairy industry.

Although milk consumption is rising in China, it is still low by European standards. Availability averages about two litres of milk per head per year, compared with 300 litres in northern Europe, a western observer estimated. Much milk is consumed on the spot, however, before it even reaches the dairy.

Demand for liquid milk is also rising, as refrigerators become more common. Nevertheless, of milk reaching the dairy plants two-thirds is processed into milk powder, which is easier to transport and store.

Demand for other dairy products is also growing. Ice cream is extremely popular with the Chinese, and is profitable product. Some dairies make it in an effort to recoup some of the losses they incur through milk production. And unlike in Europe, where ice cream sells better in the summer, sales boom in the winter because storage and distribution are easier.

In addition, yoghurt and yoghurt drinks are becoming more popular, as is cheese. While cheese is considered "rotten milk" by many Chinese, traders say Tibetans and those living in the Muslim part of western China, in Xinjiang and Ningxia have expressed interest in cheese-making equipment.

One observer said yak cheese was very good and had a long shelf-life.

Despite the increasing demand for milk and other dairy products, one western observer said the industry was unlikely to be able to meet consumers' needs the near future.

"The biggest problem is to get a better quality of milk, but the price structure doesn't allow for the farmers or dairies to improve investment for milk collecting," one western expert said. "The system will take quite a few years to change."

East German farmers may be put out to grass

By Leslie Colitt in East Berlin

EAST GERMANY, which is bracing itself for widespread industrial and white collar unemployment, may additionally lose half of its 800,000 collective farmers over the next six years, Mr Peter Pollack, the Agriculture Minister, estimates.

Agricultural workers, as farmers were referred to in the 4,500 oversized collective farms, will lose their jobs as a result of rationalisation under competitive European Community conditions. A fifth of collective farms will fail outright, Mr Polack forecasts, and 50 per cent will only survive with adequate government support while undergoing structural changes. The remaining collectives would adjust to the market economy without undue problems.

The huge East German farm co-operatives are virtually certain to remain, he said, and only 5 per cent of farmers were expected to remove the land they had been forced to contribute to the co-operative farms and return to independent farming. East German farmers have grown accustomed to virtually guaranteed incomes of nearly 12,000 marks a year, additional payment in kind and three weeks annual paid holidays.

Although production of meat, eggs, milk and potatoes was at a high level with huge stocks, consumer supplies, especially of meat, were unsatisfactory. Slaughterhouses are to be encouraged to sell meat directly to consumers while exports of pork and beef are to be doubled. Sales of West German agricultural produce in East Germany are to be limited by recently introduced import licences.

Mr Pollack said East German agriculture needed state aid in the transition period to the EC. East Berlin recently estimated this would cost DM 7bn a year. Mr Ignaz Kiechle, the West German Agricultural Minister, said East German agriculture could compete on equal terms with West German farms within two years. In the meantime, however, sales of West German farm produce in the East would have to be limited to protect the collective farms from annihilation.

Partner pulls out of Guyana gold venture

By Canute James in Kingston, Jamaica

DISAGREEMENTS over the commercial feasibility of a gold mining project in Guyana have resulted in Placer Dome of Canada withdrawing from a joint venture with Golden Star Resources, another Canadian company.

Both companies had invested C$15m (£7.5m) since starting the project at Omai in Guyana's hinterland in 1987.

Representatives of Placer Dome say that a study done by the company indicated that at the current market price for gold the project could not be cost efficient.

Officials at Golden Star have said, however, that Placer Dome's estimates of the costs for establishing the mine and infrastructure were too high, and that the estimated 2.6m ounces of gold at Omai were contained in a much smaller amount of ore than was being suggested by Placer Dome.

Placer Dome is being replaced as Golden Star's partner by Fluor Daniel Wright, another Canadian company.

NZ plea to US on cheap butter sales

By Dai Hayward in Wellington

NEW ZEALAND dairy industry leaders are going to Washington to try to persuade US politicians not to allow further sales of cheap butter to the Soviet Union. To do so, says the NZ Dairy Board, will make the world butter market even more unstable than it is now.

The world butter price has fallen during the past year from US$2,000 a tonne to $1,400 a tonne – only just above the minimum price of $1,350 fixed in the General Agreement on Tariffs and Trade.

The Board says the EC decision to increase export subsidies on butter was a major factor in the price fall.

Despite the low returns over the past month New Zealand has sold all but 8,000 tonnes of the 278,000 tonnes it will produce this season. The country's dairy herds are now drying off for the winter and sales of most of the remaining stock are expected to be completed before the end of the season in July.

The heavy drop in price over the last six months has hit the industry and New Zealand dairy farmer as the world average price of around NZ$5.20 a kilogram (£1.75) for butter-fat and protein is well below the NZ$6 a kilogram that the board had predicted and farmers were expecting.

New Zealand has sold 70,000 tonnes of butter to the Soviet Union this season. The last three shipments, worth NZ$25m, were paid for earlier this month, despite Soviet problems finding foreign exchange for import payments, which has caused problems for shippers of New Zealand wool.

This season NZ's butter quota for the UK is 61,335 tonnes down from 64,500 tonnes last season.

Butter is the major problem for the dairy industry. Sales of all other dairy products have been good.

MINOR METALS PRICES

Prices from Metal Bulletin (last week's in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, in warehouse, 1,710-1,760 (1,725-1,780).

BISMUTH: European free market, min. 99.99 per cent, $ per lb, tonne lots in warehouse, 3.65-4.10 (3.75-4.20).

CADMIUM: European free market, min. 99.5 per cent, $ per lb, in warehouse, 3.80-4.10 (4.00-4.20).

COBALT: European free market, 99.5 per cent, $ per lb, in warehouse, 7.90-8.15 (8.00-8.30).

MERCURY: European free market, min. 99.99 per cent, $ per 76 lb flask, in warehouse, 215-230 (same).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 3.05-3.10 (same).

SELENIUM: European free market, min 99.5 per cent, $ per lb, in warehouse, 5.50-6.00.

TUNGSTEN ORE: European free market, standard min. 65 per cent, $ per tonne unit (10 kg) WO, cif, 40-60 (same).

VANADIUM: European free market, min. 98 per cent, $ a lb VO, cif, 3.85-4.05 (3.95-4.15).

URANIUM: Nuexco exchange value, $ per lb, UO, 9.00 (same).

WORLD COMMODITIES PRICES

MARKET REPORT

BASE metal prices declined across the board as most LME warehouse stocks of copper, aluminium and nickel showed sharp increases last week. Copper stocks increased by 5,650 tonnes, which was at the high end of some trade expectations and prompted some liquidation of positions. Aluminium stocks rose by 8,525 tonnes to a 16-month high of 144,400 tonnes – just above traders' expectations. News that International Primary Aluminium Institute producer stocks for the first quarter were down 38,000 tonnes to 3.19m tonnes, however, had a stabilising effect on prices. LME nickel stocks rose by 3,300 tonnes to the highest level since December, prompting a wave of selling in the morning. However, prices rallied in kerb trading on short covering. The market has this week moved into contango (discount for cash metal) for the first time for about 2½ years. The free market price for rhodium continued to rise, reaching a record high of $2,400 a troy ounce. Many big Japanese consumers had until recently been postponing purchases in the hope of lower prices, traders said. London cocoa prices edged ahead, but profit taking and chart selling above £900 kept it from breaking higher.

Compiled from Reuters

London Markets

SPOT MARKETS		+ or -
Crude oil (per barrel FOB)		
Dubai	$15.20-5.25q	-.025
Brent Blend	$17.90-7.95q	-0.05
W.T.I. (1 pm est)	$19.78-9.80q	-.035
Oil products (NWE prompt delivery per tonne CIF)		
Premium Gasoline	$226-228	+2
Gas Oil	$156-157	
Heavy Fuel Oil	$73-76	-1½
Naphtha	$154-156	+4
Petroleum Argus Estimates		
Other		
Gold (per troy oz)♣	$367.75	-1.25
Silver (per troy oz)♣	506c	-3
Platinum (per troy oz)	$483.00	-2.75
Palladium (per troy oz)	$[illegible]8.65	-0.35
Aluminium (free market)	$[illegible]35	
Copper (US Producer)	1[illegible]c	-0.5
Lead (US Producer)	[illegible]c	
Nickel (free market)	[illegible]5c	-15
Tin (Kuala Lumpur market)	1.17r	
Tin (New York)	32[illegible]c	-2
Zinc (US Prime Western)	[illegible]	-0.25
Cattle (live weight)†	[illegible].02p	+0.10*
Sheep (dead weight)†	[illegible]1.10p	+8.85*
Pigs (live weight)†	[illegible].04p	+1.56*
London daily sugar (raw)	$357.6t	-0.8
London daily sugar (white)	$450.0t	-3.5
Tate and Lyle export price	£326.5	-1.5
Barley (English feed)	£112u	
Maize (US No. 3 yellow)	£142.5w	
Wheat (US Dark Northern)	£124	
Rubber (Jun)♥	55.75p	-0.25
Rubber (Jul)♥	56.25p	-0.25
Rubber (KL RSS No 1 Mar)	229.5m	-0.5
Coconut oil (Philippines)§	$378x	
Palm Oil (Malaysian)§	$285	
Copra (Philippines)§	$235	-10
Soyabeans (US)	£167v	-2
Cotton "A" index	85.55c	-0.30
Wooltops (64s Super)	545p	-2

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. q-Jul. t-May/Jun. u-Aug v-May/Aug. w-Jun z-Jul/Jul y-May. †Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

SUGAR – London FOX ($ per tonne)

Raw	Close	Previous	High/Low
Aug	327.40	333.00	336.00 324.80
Oct	325.40	331.00	332.40 323.40
Dec	325.60		320.00
Mar	309.40	314.00	313.00 307.20
Aug	307.40	311.00	310.40 306.00
White	**Close**	**Previous**	**High/Low**
Aug	438.0	443.5	445.0 437.0
Oct	401.5	405.5	404.5 401.2
Mar	384.5	392.0	390.5 384.0

Turnover: Raw 3609 (2791) lots of 50 tonnes. White 1146 (333)
Paris- White (FFr per tonne): Aug 2495, Oct 2238, Dec 2180, Mar 2162, May 2150

CRUDE OIL – IPE $/barrel

	Close	Previous	High/Low
Jul	18.06	18.05	18.13 17.91
Aug	18.11	18.12	18.15 17.99
Sep	18.19		18.21 18.11
IPE index	17.97	17.71	

Turnover: 7840 (9347)

GAS OIL – IPE $/tonne

	Close	Previous	High/Low
Jun	154.25	156.50	155.00 153.50
Jul	154.50	154.00	154.75 153.50
Aug	156.00	156.00	156.50 155.25
Sep	157.75	159.00	158.25 157.50
Oct	160.50	160.00	160.50 160.00
Nov	162.25	162.00	162.25 162.00
Dec	164.00	163.50	164.25 163.00
Jan	163.25	163.50	163.75 162.75
Feb	161.50		161.50

Turnover 3811 (3763) lots of 100 tonnes

JUTE

May/June c and f Dundee BTC $585, BWC $590, BTD $535, BWD $550; c and f Antwerp BTC $580, BWC $550, BTD $525, BWD $515.

COTTON

Liverpool-Spot and shipment sales for the week ended May 11 amounted to 431 tonnes against 553 tonnes in the previous week. Trading was of a fairly high quantity with various countries involved in sales including Israeli, West African and Mexican.

COCOA – London FOX £/tonne

	Close	Previous	High/Low
May	893	882	893 882
Jul	903	900	910 898
Sep	921	913	925 909
Dec	937	933	943 926
Mar	955	950	960 945
May	970	963	973 961
Jul	984	977	989 976

Turnover: 11554 (12761) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for May 14 1090.13 (1027.8) 10 day average for May 15 1039.46 (1033.54)

COFFEE – London FOX £/tonne

	Close	Previous	High/Low
May	825	808	822 805
Jul	644	635	644 618
Sep	660	643	660 635
Nov	673	659	672 650
Jan	687	673	686 670
Mar	698	686	691 684
May	710	704	708 700

Turnover: 4160 (5575) lots of 5 tonnes
ICO indicator prices (US cents per pound) for May 14: Comp. daily 70.64 (71.17). 15 day average 72.88 (73.22)

POTATOES – BFE £/tonne

	Close	Previous	High/Low
Nov	128.0	122.0	124.0
Apr	184.5	175.9	184.5 177.0

Turnover 241 (157) lots of 40 tonnes.

SOYABEAN MEAL – BFE £/tonne

	Close	Previous	High/Low
Aug	122.00		122.00
Oct	123.50	124.50	124.00 123.50

Turnover 102 (45) lots of 20 tonnes.

FREIGHT FUTURES – BFE $10/index point

	Close	Previous	High/Low
May	1296	1293	1300
Jun	1224	1203	1225 1214
Jul	1122	1110	1132 1110
Oct	1227	1208	1224 1210
Jan	1258		1245 1240
Apr	1265		1260
BFI	1305	1305	1305

Turnover 492 (59)

GRAINS – BFE £/tonne

Wheat	Close	Previous	High/Low
May	121.25	120.95	121.50 121.35
Jun	122.30	121.85	122.50 122.15
Sep	114.40	114.70	114.40 114.30
Nov	117.65	117.75	117.55 117.50
Jan	120.75		120.75
Mar	123.90	124.00	123.80 123.75
May	126.25	126.85	126.65 126.85
Barley	**Close**	**Previous**	**High/Low**
Sep	112.25	112.55	112.25
Nov	116.10	116.30	116.10 115.90

Turnover: Wheat 308 (247), Barley 29 (32).
Turnover lots of 100 tonnes.

PIGS – BFE (Cash Settlement) p/kg

	Close	Previous	High/Low
Jun	128.0	126.0	125.0
Aug	118.5		118.0
Oct	120.5		120.0
Feb			110.0

Turnover 57 (53) lots of 3,250 kg

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open Interest
Aluminium, 99.7% purity ($ per tonne)						Ring turnover 18,500 tonne
Cash	1527-30	1539-41		1536-7		
3 months	1551-3	1560-1	1570/1553	1556-8	1556-6	44,205 lots
Copper, Grade A (£ per tonne)						Ring turnover 58,750 tonne
Cash	1583-5	1643-4	1620/1585	1606-10		
3 months	1495-6	1522-3	1508/1492	1504.5-5.5	1505-6	51,373 lots
Lead (£ per tonne)						Ring turnover 6,775 tonne
Cash	489-91	496-7		490-1		
3 months	[illegible]	491-1.5	493/488	490-1	488-9	10,050 lots
Nickel ($ per tonne)						Ring turnover 1,710 tonne
Cash	8360-400	8375-425	8350/8330	8300-5		
3 months	8375-400	8425-50	8450/8125	8350-400	8450-500	7,678 lots
Tin ($ per tonne)						Ring turnover 825 tonne
Cash	6470-80	6510-20	6480/6440	6440-50		
3 months	6575-80	6615-20	6590/6560	6550-70	6550-600	6,377 lots
Zinc, Special High Grade ($ per tonne)						Ring turnover 14,525 tonne
Cash	1765-70	1812-4		1790-5		
3 months	1700-2	1727-8		1714-5		16,389 lots

LME Closing £/$ rate: SPOT: 1.6775 3 months: 1.6500 6 months: 1.6330 9 months: 1.6002

LONDON BULLION MARKET

Gold (fine oz)	$ price	£ equivalent
Close	367½-368	219¼-219¾
Opening	367½-368	218½-219
Morning fix	367.40	217.848
Afternoon fix	367.75	218.223
Day's high	368¼-368¾	
Day's low	365½-366	
Coins	**$ price**	**£ equivalent**
Mapleleaf	375-380	224-227
Britannia	375-380	224-227
US Eagle	375-380	224-227
Angel	375-380	224-227
Krugerrand	367-370	219-221
New Sov.	86½-88½	51½-53
Old Sov.	86½-88½	51½-53
Noble Plat	488.80-496.55	289.75-294.35
Silver fix	**p/fine oz**	**US cts equiv**
Spot	298.35	503.20
3 months	308.65	513.75
6 months	321.40	524.80
12 months	344.10	547.10

TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	July	Sep	July	Sep
1450	107	126	10	23
1550	42	67	43	61
1650	11	30	110	121
Copper (Grade A)	**Calls**		**Puts**	
2400	173	135	38	105
2500	112	91	77	158
2600	67	59	130	223
Coffee	**Jul**	**Sep**	**Jul**	**Sep**
600	51	79	7	19
650	20	49	26	39
700	6	29	62	69
Cocoa	**Jul**	**Sep**	**Jul**	**Sep**
850	67	95	14	24
900	36	65	33	44
950	18	44	65	73
Brent Crude	**Jul**	**Aug**	**Jul**	**Aug**
1750	70	45	22	
1800	[illegible]	59	45	52
1850	[illegible]	40		

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
May	370.9	368.4	0	0
Jun	372.3	369.9	374.0	368.7
Jul	374.7	372.3	370.4	370.0
Aug	377.1	374.8	376.0	374.8
Oct	382.1	379.6	380.0	378.2
Dec	386.9	384.4	387.5	381.2
Feb	391.9	389.4	387.5	387.0
Apr	396.6	394.1	392.0	392.0
Jun	401.7	399.2	397.0	397.0

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
May	485.4	483.5	0	0
Jul	487.9	487.2	489.0	483.0
Oct	494.2	493.5	495.0	490.5
Jan	500.4	499.7	0	0
Apr	506.6	505.9	505.0	505.0
Jul	512.8	512.1	0	0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
May	501.2	506.6	505.0	502.5
Jun	503.0	508.5	0	0
Jul	507.0	512.5	512.0	505.5
Sep	515.2	520.8	520.0	514.0
Dec	526.9	532.5	532.0	526.0
Jan	530.7	536.3	0	0
Mar	538.3	544.0	540.5	538.0
May	546.4	552.2	0	0
Jul	554.6	560.5	0	0
Sep	563.2	569.3	566.0	565.0

HIGH GRADE COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
May	121.30	124.00	123.70	120.20
Jun	118.00	120.50	119.00	117.00
Jul	114.10	115.00	115.10	112.65
Aug	109.20	110.40	109.00	109.00
Sep	108.20	108.80	108.80	107.30
Oct	106.90	107.35	0	0
Nov	105.60	105.90	0	0
Dec	104.30	104.60	104.80	103.50
Jan	103.40	103.55	0	0
Mar	101.50	101.60	0	0

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Jun	19.56	19.71	19.74	19.40
Jul	19.67	19.98	20.01	19.75
Aug	19.97	20.07	20.09	19.88
Sep	20.08	20.18	20.18	19.98
Oct	20.17	20.25	20.27	20.11
Nov	20.16	20.21	20.23	20.06
Jan	20.05	20.11	20.17	19.95
Feb	20.08	20.08	20.20	20.08

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low	
Jun	5170	5243	5250	5150
Jul	5175	5205	5220	5135
Sep	5400	5431	5435	5380
Nov	5595	5615	5620	5570
Dec	5680	5704	5710	5660
Jan	5715	5734	5730	5690
Feb	5655	5654	5655	5620
Mar	5460	5469	5460	5460

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Jul	1396	1406	1407	1378
Sep	1414	1408	1423	1395
Dec	1436	1441	1445	1421
Mar	1454	1458	1463	1440
May	1470	1473	1467	1463
Jul	1485	1489	1490	1472

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
May	91.30	89.50	91.30	89.75
Jul	93.23	90.93	93.25	91.30
Sep	95.10	92.99	95.15	93.30
Dec	97.25	95.38	97.25	95.40
Mar	99.75	97.25	99.75	97.35
May	101.25	99.13	0	0
Jul	103.75	100.75	0	0
Sep	103.25	102.25	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jul	14.60	14.79	14.78	14.45
Oct	14.55	14.77	14.73	14.44
Mar	14.06	14.25	14.25	13.93
May	13.94	14.13	14.10	13.87
Jul	13.85	14.01	13.85	13.75
Oct	13.67	13.85	13.77	13.60

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Jul	75.15	74.82	75.25	74.65
Oct	70.55	70.82	70.88	70.50
Dec	67.67	67.82	67.98	67.57
Mar	68.50	68.66	68.80	68.50
May	68.90	69.02	69.05	68.90
Jul	68.80	68.91	68.90	68.90
Oct	62.75	63.25	0	0

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
May	194.65	196.70	195.55	194.00
Jul	192.75	193.65	193.45	191.50
Sep	187.80	188.05	188.50	187.25
Nov	180.90	182.00	181.00	180.50
Jan	176.90	178.00	178.00	178.00
Mar	177.05	178.00	0	0
May	176.55	177.50	0	0
Jul	176.55	177.50	0	0

INDICES

REUTERS (Base: September 18 1931 = 100)

May 15	May 14	mnth ago	yr ago
1909.5	1919.7	1921.3	2000.1

DOW JONES (Base: Dec. 31 1974 = 100)

	May 14	May 11	mnth ago	yr ago
Spot	135.42	135.77	135.41	137.38
Futures	133.51	134.12	133.76	136.81

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
May	613/2	633/4	625/0	611/0
Jul	625/0	635/6	638/4	622/0
Aug	630/2	641/6	643/0	628/0
Sep	630/6	642/2	644/0	629/4
Nov	637/6	648/0	650/0	634/0
Jan	647/2	658/0	659/0	644/0
Mar	658/0	668/4	669/0	656/0
May	666/0	674/0	678/0	663/0

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
May	24.27	24.60	24.58	24.05
Jul	24.19	24.57	24.57	23.98
Aug	24.08	24.47	24.48	23.85
Sep	23.75	24.25	24.20	23.62
Oct	23.50	23.97	23.98	23.35
Dec	23.21	23.70	23.70	23.05
Jan	23.02	23.45	23.40	22.90
Mar	22.82	23.25	23.20	22.70

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
May	176.8	179.3	180.3	176.2
Jul	179.1	182.5	181.4	178.6
Aug	181.2	184.6	185.0	180.5
Sep	182.8	186.1	187.0	182.4
Oct	184.0	188.1	188.0	183.5
Dec	187.7	191.6	191.5	187.2
Jan	190.0	193.2	192.5	189.0
Mar	193.5	196.7	195.3	192.0

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
May	284/6	288/6	290/0	283/6
Jul	284/6	290/6	291/0	283/4
Sep	278/6	283/6	284/0	277/0
Dec	275/0	279/4	280/4	272/2
Mar	281/0	286/2	286/2	278/4
May	283/4	288/4	289/0	282/0
Jul	286/0	291/0	292/0	286/0

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
May	383/0	384/2	385/4	381/4
Jul	343/6	344/4	346/4	341/2
Sep	347/6	349/0	351/0	346/0
Dec	361/4	362/6	364/0	359/0
Mar	367/0	369/0	369/4	364/4
May	355/4	357/0	359/4	354/4

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jun	73.70	73.95	74.05	73.57
Aug	72.40	72.47	72.70	72.15
Oct	74.60	74.77	74.85	74.50
Dec	75.32	75.32	75.47	75.15
Feb	75.32	75.35	75.60	75.30
Apr	75.72	75.75	75.95	75.72
Jun	73.77	73.85	74.00	73.75

LIVE HOGS 30,000 lb; cents/lbs

	Close	Previous	High/Low	
Jun	63.50	63.50	63.75	63.10
Jul	62.17	62.02	62.57	61.67
Aug	60.60	60.22	60.90	59.82
Oct	53.82	53.70	54.10	53.40
Dec	53.47	53.47	53.70	53.25
Feb	51.57	51.52	51.80	51.35
Apr	48.00	48.00	48.05	47.87
Jun	51.00	51.00	51.30	50.95

PORK BELLIES 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
May	62.22	62.00	63.70	61.50
Jul	62.37	62.82	64.25	62.20
Aug	60.42	60.95	62.10	60.10
Feb	59.15	59.90	60.75	59.07
Mar	58.50	59.50	59.70	58.60
May	59.30	59.95	0	59.30

LONDON STOCK EXCHANGE

Trading focus back to fundamentals

A MORE restrained ending overnight on Wall Street left the UK stock market to move uncertainly at its opening yesterday, and it traded around the top end of the range which had been so rapidly recaptured over the past fortnight. Attention returned to investment fundamentals and to the inflation concerns revived by domestic retail sales and producer prices data disclosed, but largely ignored, on Monday.

The equity sector traced a somewhat erratic pattern in response to a batch of corporate results and deals, as well as to trends in other equity markets. The FT-SE Index closed 2.3 down at 2,212.2, helped in the final minutes by Wall Street, which trimmed its early fall to show a loss of 3.48 Dow points in London hours.

Earlier, the Footsie Index had moved between 2,204 and 2,216, which is regarded as the upper end of the current trading range. Equity strategists will watch keenly over the next few days to see whether London will break out of its existing range or merely consolidate within it.

Turnover yesterday was better than in the previous session, with Seaq volume of 402.4m shares compared with 375.1m on Monday. However, equity turnover still seems locked into the dismal trading levels recorded since the brief upswing at the beginning of the year (see chart). Current daily customer business – the figures reflect London's established pattern of double-counting – is running uncomfortably below the £1bn figure regarded as profitable for many hard-pressed London securities companies.

The session opened with a sharp dip in share prices as profits were taken after Monday's advance. The picture then brightened on the back of good trading results from Allied-Lyons, the brewery group, and widespread expectations that Bass, its fellow brewer, was about to disclose the sale of its Crest Hotels subsidiary.

The Crest deal when announced involved £300m cash and excited considerable interest. The terms were considered slightly disappointing for Bass and, consequently, good for Trusthouse Forte, the buyer of the hotels.

The market overall benefited from a "higher quality flow of corporate results," as one trader put it. Interim results from Hanson were taken calmly, with some traders expressing disappointment with the dividend payment. Figures from J. Sainsbury, a leading food supermarket retailer, were well received.

While satisfaction was expressed with yesterday's market performance, some traders pointed to fresh uncertainties which may hold the market back. The outlook for Wall Street appears less certain and London is bracing itself for the next set of UK trade figures, due next week.

Account Dealing Dates

First Dealings:	Apr 30	May 14	May 29
Option Declarations:	May 10	May 24	Jun 7
Last Dealings:	May 11	May 25	Jun 8
Account Day:	May 21	Jun 4	Jun 18

*New time dealings may take place from 8.00 am two business days earlier

FINANCIAL TIMES STOCK INDICES

	May 15	May 14	May 11	May 10	May 9	Year Ago	1990 High	1990 Low	Since Compilation High	Since Compilation Low
Government Secs	77.05	76.95	77.05	76.35	76.10	86.74	84.20 (2/1)	74.13 (30/4)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	86.13	86.07	85.83	85.61	85.36	97.35	92.91 (8/1)	83.80 (30/4)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary Share	1731.6	1739.5	1708.8	1690.8	1695.6	1776.2	1968.3 (3/1)	1653.6 (30/4)	2008.6 (5/9/89)	49.4 (26/6/40)
Gold Mines	217.8	224.2	227.7	227.9	226.6	176.3	378.5 (6/2)	215.6 (3/5)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2212.2	2214.5	2175.9	2157.0	2162.7	2136.7	2463.7 (3/1)	2103.4 (30/4)	2463.7 (3/1/90)	986.9 (23/7/84)
Ord. Div. Yield	5.27	5.25	5.32	5.37	5.36	4.45				
Earning Yld %(full)	11.80	11.77	11.92	12.04	12.00	10.84				
P/E Ratio(Net)(☆)	10.24	10.27	10.13	10.02	10.06	11.13				
SEAQ Bargns 4.45pm	23,690	22,957	25,050	20,474	19,872	27,649				
Equity Turnover(£m)†	-	733.85	676.75	673.81	598.23	1094.20				
Equity Bargains†	-	21,907	24,619	19,608	19,417	31,936				
Shares Traded (ml)†	-	330.1	418.6	353.2	284.4	394.7				

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold mines 12/9/55, Basis 1000 FT-SE 100 31/12/83. ☆ Nil 10.14

Ordinary Share Index, Hourly changes — Day's High 1732.9 — Day's Low 1723.1

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
1732.1	1729.5	1723.8	1726.0	1732.4	1732.9	1731.9	1728.7	1730.4

FT-SE, Hourly changes — Day's High 2216.1 — Day's Low 2204.1

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
2213.9	2212.4	2205.2	2210.8	2214.5	2215.7	2213.9	2208.6	2211.4

GILT EDGED ACTIVITY

Indices*	May 14	May 11
Gilt Edged Bargains	93.7	110.1
5-Day average	108.3	108.2

*SE Activity 1974. †Excluding intra-market business & Overseas turnover. Calculation of the FT Indices of daily Equity Bargains and Equity Value and of the five-day averages of Equity Bargains and Equity Value, was discontinued on July 31. Closing values for July 28 available on request.
London report and latest Share Index: Tel. 0898 123001.

Confusion on Bass disposal

TRADING in Bass underwent sharp changes of sentiment as the market anticipated and then scrutinised the sale of its Crest Hotels subsidiary to Trusthouse Forte. Bass weakened during the morning session and immediately after the announcement, but recovered in busy trading before the close.

The sale of Crest had been expected, but analysts had attached a wide range of valuations to it, many at more than £400m. The announcement confused both analysts and traders because it stated that THF had paid £300m for 43 Crest hotels in the UK, but that aggregate proceeds from the Crest disposal programme, including several other hotels, would be above £400m.

Analysts agreed that the closer they looked at the deal the less good it seemed for Bass; all said it benefited THF. Mr Mike McCarthy of Smith New Court struck a positive tone, saying the deal cut Bass's gearing and was earnings-enhancing. Mr Geoff Collyer at County NatWest said the 23 times historic earnings paid was a good price, but acknowledged that the market had expected substantially more.

Other analysts argued that, at £63,000 a room, the price was a disappointingly large discount from the £77,000 a room some had forecast.

Bass peaked early at 999p, fell to 982p and closed at 989p, a net decline of 9. Traders reported busy two-way business as volume swelled to 2.4m shares. THF recovered from a day's low of 255½p to 259p, a net improvement of 2. Some 5.8m shares changed hands.

Sedgwick lower

Sedgwick, Europe's biggest insurance broker, fell heavily in bigger than usual turnover after announcing first-quarter figures and a cautious accompanying statement. Analysts moved quickly after the figures were released to downgrade profits forecasts for the full year.

Mr Andrew Goodwin at UBS Phillips & Drew cut his pre-tax profits expectation for 1990 from £110m to £100m and his dividend forecast from 13p to 12p. At BZW, Ms Julianne Jessup also downgraded from £110m to £100m for the current year, and from £160m to £130m for 1991. The BZW analyst lowered her dividend expectations to 12p and 13.5p respectively for 1990 and 1991.

Mr Goodwin said the figures were in the middle range of forecasts. He added that Sedgwick's rating "has always been forward looking, but another set of figures passes by with no real improvement in outlook." BZW said the figures were "superficially in line with expectations," but added that "underlying trends are disappointing." BZW rated the shares a hold, while UBS Phillips & Drew is neutral on the stock.

Sedgwick ended 15 lower at 260p on turnover of 3m shares.

Sainsbury steady

J. Sainsbury, the food retailer, edged ahead after reporting a higher-than-expected 19 per cent increase in full year profits to £420.7m, excluding property profits. The shares firmed 3 on the news to 260p, and then tracked the market for the rest of the day before closing at that level, having traded 1.8m shares.

Analysts welcomed the figures and raised their forecasts for this year, although some believed that other retailers could achieve higher margin growth. County NatWest raised its profits estimate for *the current year, excluding* property, to £486m from £476m. Henderson Crosthwaite changed its forecast to £470m from £460m.

Mr Bill Myers of Henderson said: "The results are obviously very good, especially in non-core areas, but there is some room for longer term caution. Debt remains relatively high and other retailers in the sector may achieve faster margin growth."

Hillsdown, the food manufacturer, eased 3 to 249p following worries about the impact of the so-called "mad cow," or bovine spongiform encephalopathy, disease on beef sales. Mr William de Winton of Hoare Govett said that "even the worst case scenario would only reduce gross profits by £5m" since white meat sales could increase. Hoare left its full year forecast at £245m and will wait to see whether the recent press coverage has an impact on sales. However, Northern Foods, down 3 at 285p, would not be affected by the worries, Mr Winton added.

United Biscuits advanced 6 to 335p on 1.2m shares following a visit by analysts to its US operations and spurred on by a late flurry in the traded options market, where it was the third busiest contract.

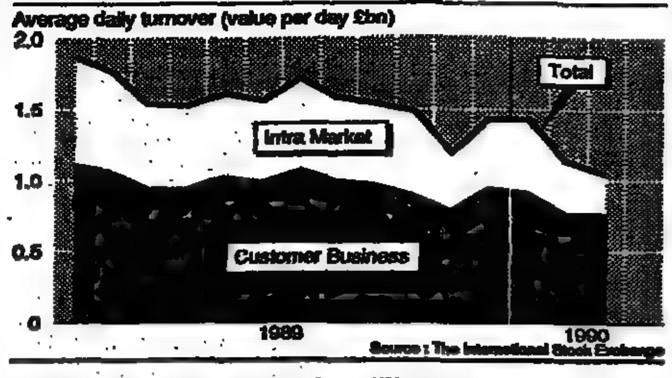
Most of the oil and gas stocks ran into a bout of profit-taking after the uptick of recent sessions. But falls were generally restricted to minor amounts, with BP and Shell only a fraction off at 318p and 451p respectively. Ultramar dipped 9 to 341p in quiet trading of 629,000 shares. Dealers said the stock had fallen on the back of a smallish selling order ahead of today's first-quarter numbers.

Enterprise Oil proved an exception and followed Monday's outstanding 18p rise with another resilient showing, touching 624p early on before closing slightly higher at 620p. Turnover reached 2.7m, an extremely high level for Enterprise where activity rarely tops the 1m-share mark.

A sector specialist continued to take the view that a placement of ICI's near 25 per cent holding "is not too far away," and also said "when the shares are eventually placed, they will go like hot cakes." But the general view in the market was that the recent steep gain in Enterprise shares anticipated a strong buy recommendation said to have been prepared by a big UK securities house.

UK and Irish equity market

Average daily turnover (value per day £bn)



Source: The International Stock Exchange

Brewery stocks were traded heavily as the sale of Crest Hotels by Bass tightened the focus of attention on a sector already in the middle of its results season.

Allied-Lyons posted final profits 12½ per cent higher at £565m, near the top end of expectations. Analysts edged up their profit forecasts for the current year, with County NatWest now going for £621m (instead of £618m), Smith New Court at £632m (£625m), and Kleinwort Benson at £635m (£624m). Allied rose firmly, helped by a positive statement from the chairman. Analysts seemed particularly pleased to hear of seemingly recession-proof beer volumes. Traders also noted a persistent single buyer of the stock. Allied moved ahead 15 to 453p on good volume.

Other brewery leaders rose in sympathy. Vaux firmed 3 to 212p after publishing interim profits up from £11.9m to £14.1m.

The exception was Grand Metropolitan, where uncertainty over the impact of "mad cow disease" on beef sales left the shares 4 lower at 587p. GrandMet owns the Burger King restaurant chain.

Burton rose 5 to 170p as analysts at Panmure Gordon said that fears over the performance of the company's property portfolio were overdone. They said that the maximum downside on the property portfolio was £30m but that £5m was more realistic.

Ladbroke climbed 8 to 295p in the wake of a presentation to 50 European institutions in Brussels on Monday by Hoare Govett, the company's broker. Turnover was a good 2.8m shares.

BZW's pre-results note on Carlton Communications declared the shares a buy both in the short and long terms. It said that the fall in the price over the last few weeks, as analysts cut their profit forecasts, was overdone. Carlton climbed 10 to 630p, with interims due next Monday.

The visit by City analysts to BICC's North American operations was said to have proved more downbeat than had been expected, and this, coupled with growing concern over the performance of BICC's Australian businesses and Balfour Beatty, led to some determined selling pressure in the market.

Flemings Research confirmed they had lowered their current year profits estimate from £228m to £211m and reaffirmed their sell recommendation.

BICC shares, strong performers in recent days as buyers anticipated good reports from the analysts' visit, turned down to end the session a net 10 lower at 405p, after 404p, with turnover expanding to 2.4m shares, well up on normal levels.

A 61-page review of the telephone networks sector by Mr Christopher Tucker, electronics analyst at Kitcat & Aitken, highlighted the attractions of British Telecom and Cable and Wireless. BT was also in the news following the relaunch of *Cellnet*, the cellular radio network owned on a 60-40 per cent basis by BT and Securicor. BT gained 3 to 262p on 4.2m.

There was a big two-way pull in Racal Electronics, where turnover reached 7.4m, well up on usual levels. Up to 202p early in the session, the shares subsequently slipped to close unchanged on the day at 199p. A number of UK securities houses have buy notes out on the stock, but there is, and has been for some time, large-scale selling by US investors. A line of stock, said to be 3.2m shares, was thought to have been offered around yesterday.

Christies International, the auction house, edged forward but later followed the market lower to close unchanged at 331p. ADT, the vehicle auction and security group, *said yesterday* it had lifted its stake in Christies to 17.6 per cent from 15.1 per cent. ADT said last month it had no plans to bid for Christies unless a competitive situation arose. ADT shares closed 1½ lower at 172½p.

ECC, the former English China Clays, closed a penny easier at 347p. The shares were affected by continued worries about the weakness in the UK house-building and construction sector, and speculation that the company's recently announced £520m acquisition of Georgia Kaolin, of the US, could face anti-trust obstacles in the US.

GKN continued to languish after last week's profits warning and the shares gave up another 2 to 357p. Mr *Alasdair* Stewart at Nikko Securities, however, pointed out that revaluing the group's properties, which has not been done since 1981, would "bring the net asset value to over 400p a share."

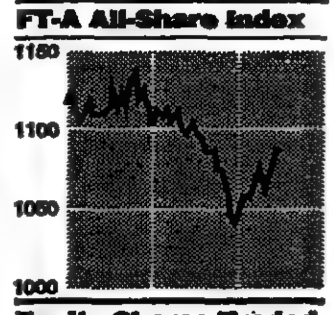
Molins, subject of a bid from Leucadia, the US financial services and manufacturing group, closed 10 lower at 269p after Leucadia said it was to allow its 252p a share offer to lapse unless it was able to buy more of Molins' shares by noon today.

FKI closed unchanged at 68p after 3.2m shares were traded, including a block of 2.5m shares as talk of stake-building once again did the rounds. The company said it had won a £5m-plus contract from BREL.

Persistent market talk that Pilkington may have been stalking Heywood Williams prior to launching a bid triggered further strong support for the latter's shares, which moved up 6 more to 275p.

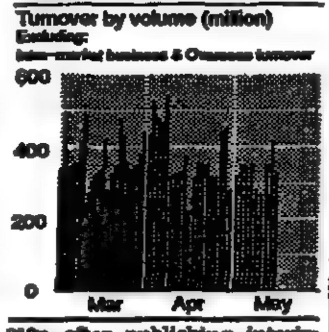
■ Other Market statistics, including the FT-Actuaries share index, Page 31

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million). Excluding: Intra-market business & Overseas turnover



NEW HIGHS AND LOWS FOR 1990

NEW HIGHS (24). BRITISH FUNDS (2) AMERICANS (3) BUILDINGS (2) CHEMICALS (1) STORES (3) ELECTRICALS (2) INDUSTRIALS (7) Apollo Metals, Astra, Dover, Glaxo, Lilley (FJC), NMW Computers, Stora "B", TRANSPORT (1) TRUSTS (3) THIRD MARKET (1).

NEW LOWS (111). AMERICANS (1) CANADIANS (1) BREWERS (1) BUILDINGS (8) CHEMICALS (2) STORES (3) ELECTRICALS (7) ENGINEERING (7) FOODS (8) INDUSTRIALS (26) AAH, AIM, Claybithe, Co. of Designers, Copymore, Creighton Naturally, Dean & Bowes, Dyson (J & J), ECC, EFG, Excalibur, Fitzwilton, Hogan, Handley-Walker, Hay (Norman), Hunting 8½pc PL, IWP Intl., Mining & Allied Supplies, Pentland, Powell Duffryn, TLG Range, Unigroup, West Inds., LEISURE (6) MOTORS (7) NEWSPAPERS (3) PAPERS (6) PROPERTY (8) TRANSPORT (4) TRUSTS (16) OILS (2) MINES (13) THIRD MARKET (4).

TRADING VOLUME IN MAJOR STOCKS

Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change
ADT	3,000	172½	−1½	Coloroll	1,800	201	−9	MB Group	849	204		Siebe	1,400	458	−2
ASDA Group	1,400	101		Courtaulds	501	315	−6	MEPC	430	480	+2	Slough Ests	347	282	−1
Abbey National	3,000	193	+1	Dalgety	417	360	−7	Manpower	458	79	−2	Smith (W.H.) A	513	304	+1
Allied-Lyons	4,900	453	+15	Dixons	434	127	+1	Marks & Spencer	4,000	203½	+1	Smith & Nephew	10,000	108½	+2½
Amstrad	1,100	30	+1	ECC Group	936	347	−1	Maxwell Comm.	531	181	−2	SmKl Beecham	882	510	−2
Anglian Water	482	151½	+1½	Enterprise Oil	2,700	620	+2	Mecca Leisure	5,500	73	+3	SmKl Beecham Units	7	2355	−5
Argos	2,200	193		FKI	3,200	68		Midland Bank	2,000	297	−3	Smiths Inds.	84	242	−3
Argyll Group	1,800	218		Ferranti	411	41		NatWest Bank	3,100	322	−3	South West Water	1,000	165	+4
Ass. Brit. Foods	115	[illegible]	−1	Fisons	831	350	+1	Next	165	63		Southern Water	384	129	−3
BAA	476	390		Gen. Accident	419	1030	−1	North West Water	885	150½	−½	Standard Chartd.	401	403	−4
BAT Inds.	1,300	[illegible]	−1	General Elect.	3,700	207		Northern Foods	176	285	−3	Storehouse	4,400	108	−1
BET	[illegible]	[illegible]		Glaxo	3,200	[illegible]	−10	Northumbrian Water	319	180	+3	Sun Alliance	1,100	302	−3
[illegible]				[illegible]				[illegible]				[illegible]			
British Gas	2,800	[illegible]	−2	Hillsdown	2,400	249	−3	Reed Intl.	335	407	−2	Unigate	340	294	−1
British Land	[illegible]	330	+1	IMI	1,000	220	−7	Reuters	1,000	1104	+1	Unilever	688	667	
BP	4,800	318	−1	ICI	881	1140	+3	Rolls Royce	5,700	169	−½	United Biscuits	1,200	335	+6
British Steel	8,600	142½	−1½	Inchcape	55	[illegible]	−3	Rothmans	130	[illegible]	−5	Utd. Newspapers	189	328	−2
British Telecom	3,700	262	+3	Kingfisher	521	295	+1	Ryl Bk Scotland	476	186	+1	Water Package Un.	2	1458	+5
Bunzl	22	[illegible]		Ladbroke	2,800	295	+8	Royal Insurance	672	433		Wellcome	445	853	+6
Burmah Oil	152	676	−7	Land Securities	1,300	476	+5	STC	335	250		Welsh Water	537	159	+3
Burton	1,400	170	+5	Laporte	49	513	−4	Saatchi	620	102	−3	Wessex Water	182	146	−4
Cable & Wire.	1,100	583	−5	Legal & General	1,200	372	+4	Sainsbury	1,200	260	+3	Whitbread "A"	2,500	309	+7
Cadbury	535	324		Lloyds Abbey	586	297		Scottish & New.	2,000	312	+7	Williams Hldgs.	1,300	251	+1
Calor Group	135	259	−1	Lloyds Bank	3,400	[illegible]	−6	Sears	5,700	96	+1	Willis Faber	1,400	274	
Carlton Comms.	274	630	+10	LASMO	577	[illegible]	−6	Sedgwick	3,000	260	−15	Wimpey	451	219	+2
Coats Viyella	1,400	105		Lonrho	1,600	226	−3	Severn Trent Water	751	132		Yorkshire Water	249	182	+2
Comm. Union	762	462	−2	Lucas	630	596	−1	Shell Transport	2,300	451	−2				

Based on trading volume for most Alpha securities dealt through the SEAQ system yesterday until 4.30pm.

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

[illegible]

Five to Fifteen Years

[illegible]

Over Fifteen Years

[illegible]

Undated

[illegible]

BRITISH FUNDS—Contd

Index-Linked

[illegible]

INT. BANK AND O'SEAS

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Building Societies

[illegible]

Public Board and Ind.

[illegible]

FOREIGN BONDS & RAILS

[illegible]

AMERICANS

[illegible]

AMERICANS—Contd

[illegible]

CANADIANS

[illegible]

For Seagram see BEERS, WINES & SPIRITS

Continued on next page

APPOINTMENTS

New chief executive at Alfred McAlpine

ALFRED McALPINE has appointed Mr Graeme Odgers *(pictured)* as chief executive from June 1 when Mr R.J. McAlpine relinquishes the post. Mr McAlpine continues as chairman and will concentrate on the strategic development of the group. Mr Odgers recently left British Telecom where he was group managing director. He was a group managing director with Tarmac from 1983-86.

■ City law firm BERWIN LEIGHTON has elected Mr Malcolm Brummer as chairman. He has been a partner since 1975.

■ Mr Brian Lymbery has been appointed director of THE CHARTERED SOCIETY OF DESIGNERS from June 1. He was executive director of UK2000. Mr David Pocknell has been elected president.

■ HARRISON INDUSTRIES, Stockport, has appointed Mr J.K. Barnes as a non-executive director.

■ Mr *Thomas Barber* has been appointed managing director, Kirkstall division, GKN AXLES, Leeds. He was director, manufacturing engineering, with Leyland Daf.

■ M.Y. HOLDINGS has appointed Mr John Monks as chief executive to succeed Mr Ian Willis who will be returning to South Africa but remains a group director. Mr Willis was seconded to M.Y. last year from Malbak. Mr Monks was chairman of Norton Opax Packaging. Mr John Grainger, previously a director of Norton Opax, has been appointed a non-executive director of M.Y.

■ HAMMOND TRANSPORT GROUP, Redhill, has appointed Mr Tony Judge as commercial director, and Mr John Cutler as operations director.

■ DRUCK HOLDINGS has appointed Ms Karen C. Wildman as a director, and Mr John S. Chaffe, group financial controller, as a director and company secretary. Mr Ronald S. Etherington, international marketing manager, joins the board. Ms Jane K. Hough has been appointed company secretary of Druck Ltd, the group's main operating company.

■ Mr K.D. Vesely has been appointed chief executive officer of LAPORTE absorbents division from July 1. He was vice president, products group, with UOP.

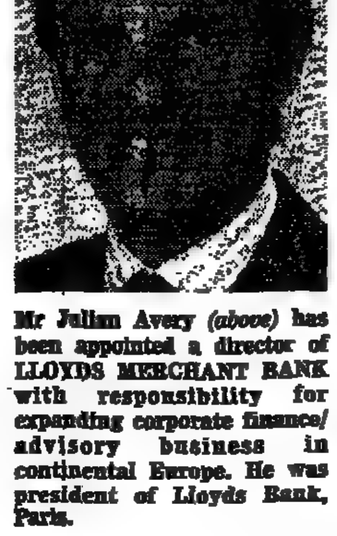
■ WALTER DUNCAN & GOODRICKE has appointed Mr N.A. Grant as chairman following the retirement of Mr M.W. Butterwick. Mr N.J.G. Sharp and Mr G.B.W. Walsh have been appointed to the board.

■ Mr Richard Harrold is to become director of property investment, POSTEL INVESTMENT MANAGEMENT, from June 1. He succeeds Mr Fred Reeder who is leaving to go into private practice. Mr Harrold was deputy director and chief investment manager for PosTel property services, where he is succeeded by Mr Richard Smith, who continues as chief surveyor. The company manages the pension schemes for British Telecom and the Post Office.

■ Mr Bill Junor has joined the venture capital department of MURRAY JOHNSTONE, Glasgow, and been appointed to the board of Murray *Johnstone Developments*, a subsidiary responsible for unlisted investment.

■ Mr Brian Cann, managing director of St Martins Property Corp, has been appointed a non-executive director of WYNNSTAY PROPERTIES.

■ MERLONI DOMESTIC APPLIANCES, Crayford, has appointed Mr Giuliano Gnagnatti as managing director, following the resignation of Mr John Malagoni. The company's brands are Ariston and Indesit.



Mr Julian Avery *(above)* has been appointed a director of LLOYDS MERCHANT BANK with responsibility for expanding corporate finance/advisory business in continental Europe. He was president of Lloyds Bank, Paris.

LONDON SHARE SERVICE

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BANKS, HP & LEASING

1990 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
303	219	ANZ SA1	231	-1	44c	1.4	8.6	8.2
196	172	Abbey National 10p	193	+1	5.7	4.3	3.9	7.8
*274	210	Allied Irish Ord	221xr	+2	Q40%	♦	4.3	♦
£13¼	£11¾	Algemene Fl.10	£12¼	-⅛	Q28%	2.1	7.3	6.4
85	73	Anglo Irish	75	.....	‡Q8.7%	2.7	5.9	10.2
81	68	Ansbacher (H.) 1p	70	.....	2.5	1.3	4.8	20.2
£71½	£54½	Bancaire Cie Fr100	£69½	-1¼	‡Q12½%	–	2.0	–
£22¾	£16¾	Banco Bilbao Viz	£18½	.....	Q89.1%	2.7	4.6	12.0
£31	£24¼	Banco de Santander	£28¼	.....	Q25%	2.4	3.9	10.6
286	224	Bank Ireland Ir£1	232	+1	‡Q12.7%	3.2	5.0	7.9
£19½	£18	Bank Leumi	£19½	.....	–	–	–	–
350	320	Bank Leumi (U.K.)	345	.....	†13.5	–	5.2	–
125	104	Bank Scotland	109	-1	4.55	q3.6	5.6	6.6
100¼	83¼	Do. 9¼pc Irrd Pf	89½	-½	9¼%	–	13.8	–
54	39	Bank of Wales	39	.....	2.8	0.8	9.6	18.7
599	493	Barclays £1	535	-2	27.4	3.5	6.8	5.3
22	14	Benchmark 20p	14	.....	1.63	1.0	15.5	8.0
335	310	Brown Shipley £1	315	.....	†10.5	–	4.4	–
455	361	Cater Allen £1	364	.....	23.5	–	8.6	–
179	137	Chancery	139	.....	18.0	2.8	7.7	6.1
£23¼	£19¾	Commerzbk DM10	£21¼	-⅞	Q18%	–	3.1	–
£13½	842	Dai Ichi KBk Y50	949	+1	‡Q16%	8.8	0.3	36.3
*£313	£262¼	Deutsche Bk DM50	£285¾	+1⅜	Q28%	–	1.8	–
£20⅞	£19	Espirito Santo	£19½	.....	Q75c	3.3	2.3	13.3
253	183	First Nat. Fin. 10p	199	.....	13.0	2.4	8.7	6.1
121	96	FNFC 6.3pc Cv. Pf	100	.....	6.3%	–	8.4	–
£15½	953	Fuji Bank Y50	£11	-⅛	Q15.6%	4.2	0.3	–
325	262	Gerrard & National	272	-1	18.5	–	9.1	–
154	138	Guinness Mahon 10p	139xd	+1	2.1	–	2.0	–
328	223	Hambros 20p	240	+1	†10.0	–	5.6	–
128	93	Do. 7.5pc Cv Pf	97	+1	7½%	–	10.3	–
53½	43½	HK & Shang. HK$2.50	43½	.....	hQ38c	–	6.6	–
478	458	Joseph (Leo) £1	458	.....	15.85	–	4.6	–
145	126	King & Shaxson 20p	130xd	-1	10.25	♦	10.5	♦
422	340	Kleinwort Benson Grp	364	+3	16.0	2.5	5.9	9.2
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Hire Purchase, Leasing, etc.

1990 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BEERS, WINES & SPIRITS

1990 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BUILDING, TIMBER, ROADS

1990 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BUILDING, TIMBER, ROADS – Contd

1990 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CHEMICALS, PLASTICS

1990 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

DRAPERY AND STORES

1990 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

ELECTRICALS

1990 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

ELECTRICALS – Contd

1990 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

ENGINEERING

1990 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

ENGINEERING – Contd

1990 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FOOD, GROCERIES, ETC

1990 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

HOTELS AND CATERERS

1990 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

INDUSTRIALS (Miscel.)

1990 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

For Malaya Group see GARAGES & DISTRIBUTORS

INDUSTRIALS (Miscel.) – Contd

1990 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

INDUSTRIALS (Miscel.) – Contd.

1990 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

INSURANCES

1990 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LEISURE

1990 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

MOTORS, AIRCRAFT TRADES

1990 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Commercial Vehicles

1990 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON SHARE SERVICE

MOTORS, AIRCRAFT TRADES — Contd

Components

1990 High	Low	Stock		Price	+ or −	Div Net	C'vr	Y'ld Gr's	P/E
458	420	Abbey Panels		453	.....	3.5	10.8	1.0	12.0
225	203	Airflow Streamlines	y	215	.....	6.0	4.2	3.8	8.5
190	145	Bostrom 5p	y	155	+5	5.75	3.1	4.9	7.0
266	191	Dowty 50p	§	209	−2	16.0	2.3	5.1	11.0
239	155	FR Group	§	161xd	.....	6.37	♦	5.3	♦
135	63	Kwik-Fit Hldgs. 10p	§	69	+2	2.4	1.7	4.6	17.3
694	568	Lucas Inds. £1	□	598	−1	125.0	3.0	5.6	6.8
16	8½	Spice 5p	y	8½	.....	tg1.2	0.4	♦	65.2

Garages and Distributors

1990 High	Low	Stock		Price	+ or −	Div Net	C'vr	Y'ld Gr's	P/E
28	19	Alexanders 10p	y	21	+1	1.0	3.0	6.3	6.3
135	110	Appleyard 10p	§	111	.....	7.8	2.4	9.4	5.2
110	75	Batchley Motor 20p	y	83xd	.....	7.5	1.9	12.0	5.9
569	505	Caffyns 50p	§	505	.....	11.5	0.4	3.0	−
121	101	Central Motor Auctns	y	101	.....	3.25	3.0	4.3	10.2
61	26	Cook (D.C.) Hldgs	y	26	.....	‡1.33	−	‡	−
89	33	Cowie (T.) 5p	§	42	.....	4.2	2.2	13.3	4.0
95	68	Dagenham Motors 10p	y	73	+1	5.25	2.8	9.6	5.0
98	81	Davenport Vernon 10p	y	93	.....	3.5	3.6	5.0	6.5
29	16	Equity & Gen 5p		20	.....	‡1.5	1.7	10.0	(7.1)
247	170	Evans Halshaw	§	170	−3	11.25	2.4	8.8	6.2
113	85	Gates (F.G.)	§	93	+1	§2.75	2.6	3.9	12.9
161	113	Gowrings 10p	y	113	.....	5.63	1.3	6.6	12.7
167	118	Hartwell	§	140	.....	3.1	2.8	3.0	16.3
81	71	Jacks Wm	y	71	.....	2.0	1.0	3.8	35.6
118	85	Jessups	y	85xd	−1	7.0	2.5	11.0	4.8
181	74	Lancaster	§	178	.....	4.5	2.7	3.4	14.9
297	233	Lex Service	§	244	.....	15.3	2.6	8.4	6.2

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

PROPERTY — Contd

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRANSPORT

TRUSTS, FINANCE, LAND

Investment Trusts

TRUSTS, FINANCE, LAND — Contd

TRUSTS, FINANCE, LAND — Contd

Finance, Land, etc

WATER

OIL AND GAS

OIL AND GAS — Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

Tins

MINES — Contd

Miscellaneous

1990 High	Low	Stock		Price	+ or −	Div Net	C'vr	Y'ld Gr's
190	138	Anglesey Mining 9p	y	138	.....	−	−	−
110	60	Do. Warrants	y	60	.....	−	−	−
17	12½	Anglo-Dominion		13	.....	−	−	−

THIRD MARKET

NOTES

REGIONAL & IRISH STOCKS

IRISH

TRADITIONAL OPTIONS

3-month call rates

Industrials

Property

Oils

Mines

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AUTHORISED UNIT TRUSTS

[illegible]

GUIDE TO UNIT TRUST PRICING

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Thornton Unit Managers Ltd (1000)F
33 Cavendish St., London W1M 7HF 071-493 7262
Dealing 071-493 8545

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
American Opps	5	55.80	56.57	60.32	+0.56	0.19
(Accum Units)	5	57.22	58.01	61.87	+0.58	0.19
European Opps	5	78.95	79.11	84.37	-0.20	0.00
(Accum Units)	5	79.38	79.54	84.84	-0.19	0.00
Far Eastern Opps	5	133.32	133.62	142.52	+0.74	0.00
(Accum Units)	5	134.17	134.49	143.43	+0.76	0.00
Golden Opps	5	35.97	35.97	38.36	-0.27	0.00
(Accum Units)	5	37.00	37.00	39.46	-0.28	0.00
Intl Hi-Yield	5	59.93	59.99	63.98	+0.05	4.30
(Accum Units)	5	65.33	65.40	69.75	+0.06	4.30
Sanyo Japan Tst	5	66.80	66.80xd	71.24	+0.96	0.00
(Accum Units)	5	66.80	66.80xd	71.24	+0.96	0.00
Kangaroo	5	30.15	30.15	32.15	+0.01	1.30
(Accum Units)	5	30.32	30.32	32.33		1.30
Oriental Income	5	33.71	33.76	36.00	+0.05	4.86
(Accum Units)	5	38.46	38.52	41.08	+0.06	4.86
Tiger	5	147.18	147.18xd	156.98	-0.27	0.71
(Accum Units)	5	149.78	149.78xd	159.76	-0.27	0.71
UK Hi-Yield	5	41.63	41.63	44.39	+0.09	5.15
(Accum Units)	5	47.60	47.60	50.76	+0.10	5.15
UK Opps	5	51.23	53.38	57.08	-0.08	0.74
(Accum Units)	5	55.82	58.36	62.19	-0.09	0.74

Three Counties Asset Mngmt Ltd (1430)F
Cuthbert House, Tower Road, Washington NE37 2SH 091 415 3034

Balanced Portfolio	6	91.12	92.69	98.61	+0.13	4.00

Timberlake Trust Mngrs Ltd (0900)F
1 White Hart Yard, London SE1 1NX 071-407 5966

Portfolio	2	97.28	97.28	99.94	+0.83	1.18

Touche Remnant Unit Tst Mngt Ltd (1600)F
Mermaid Hse, 2 Puddle Dock, EC4V 3AT 071-248 1250
4 Hourly Pricing—12 Noon Historic

TR American Grth	5¼	48.22	48.22	51.43	+0.29	0
TR Eur Sp Sits Acc	5¼	46.80	46.80	49.74	+0.02	0
TR Eur Sp Sits Inc	5¼	45.89	45.89	48.78	+0.03	0
TR Far East Opps Inc	5¼	23.64	23.72	25.24	-0.07	—
TR Far East Opps Acc	5¼	23.64	23.72	25.24	-0.07	—
TR General Growth	5¼	72.57	72.57	77.20	+0.08	2.46
TR Global Tech	5¼	75.91	75.91xd	80.97	+0.62	0
TR Income Growth	5¼	83.06	83.06	88.36	+0.11	6.53
TR Income Monthly	5¼	49.94	49.94	53.12	+0.09	7.65

[illegible]

	Bid Price	Offer Price	+ or -	Yield Gr's

NM Rothschild Asset Management Ltd

NC Managed	56.7	60.4xd	—	3.86
NC Property	191.9	209.7xd	—	—

J. Rothschild Fund Managers Ltd

Intl Exempt	142.9	144.4	—	3.90

Stewart Ivory & Co Ltd

Saints PPP Apr 2	248.4	261.5	—	0.80

Closed to new business

Thornton Unit Managers Ltd

Managed Exempt Mar 15	100.25	107.28xd	+3.40	3.88
(Accum Units)	101.06	108.11xd	+3.42	3.88

Touche Remnant Unit Tst Mngt Ltd

TR Exempt European	1289	1298xd	—	1.39
TR Exempt Nth Amer	955	970xd	—	3.38
TR Exempt Pac Basin	879	882xd	—	0

INSURANCES

AA Friendly Society
Investment Mngt M & G Inv Mngt Ltd

AA Friendly Sy Apr 12	—	168.1	—	—

Abbey Life Assurance Co Ltd
80 Holdenhurst Road, Bournemouth 0202 292373

Prop. Ser. 1	299.7	315.5	—	—
Equity Ser. 1	125.5	132.2	-0.4	—
Prop. Acc. Ser 2	461.8	486.2	-0.1	—
Equity Ser 2	145.5	153.2	-0.5	—
Selective Acc	339.4	356.9	-0.6	—

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OTHER UK UNIT TRUSTS

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Continued on next page

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	Bid Price	Offer Price	+ or -	Yield Gross
National Financial Management Corp PLC				
72 Gatehouse Rd, Aylesbury, HP19 3XJ 0296 395539				
Life Funds				
Managed Cautionary	100.5	105.6	+1.3	–
Managed Growth	136.5	143.7	–1.5	–
Managed Opportunity	141.0	148.5	+1.3	–
NFMC Target Financial	95.00	100.0	—	–
Pension Funds				
Managed Cautionary	105.6	111.2	+0.9	–
Managed Growth	143.1	150.7	+1.4	–
Managed Opportunity	143.0	150.6	+1.0	–
NFMC Target Mngd Pen	1506.4	1585.7	–0.3	–
National Mutual Life				
The Priory, Priory Pk, Hitchin, SG5 2DW 0462 422422				
Managed Fund	216.4	227.8	—	–
Managed Prospect Fund	181.6	191.2	—	–
Pens Managed	283.0	297.9	—	–
Pens UK Equity	327.2	344.5	—	–
Pens Overseas Equity	401.2	422.4	—	–
Pens Property	146.9	154.7	—	–
Pens Fixed Interest	164.9	173.6	—	–
Pens Index Linked	144.2	151.8	—	–
Pens Deposit	195.5	205.8	—	–
Harvester & P.R.P.				
UK Equity	143.1	150.7	—	–
Overseas Equity	143.7	151.3	—	–
Fixed Interest	112.7	118.7	—	–
Property	122.3	128.8	—	–
Index Linked	131.1	138.0	—	–
Deposit	135.7	142.9	—	–
Managed	142.6	150.2	—	–
With Profits	138.2	145.6	—	–
National Provident Institution				
48 Gracechurch St, London EC3P 3HH 071-623 4200				
Managed	334.4	352.1	+0.5	–
UK Equity	418.1	440.2	+0.6	–
Overseas Eq.	356.4	375.2	–0.6	–
American	269.3	283.5	+2.4	–
Far East	383.0	403.2	+2.6	–
Property	215.8	227.2	+0.3	–
Fixed Int.	212.3	223.5	+0.7	–
Indexed Gilt	138.3	145.6	—	–
Deposit	163.5	172.2	+0.1	–
Pension Fund (Accum Units)				
Managed	455.3	479.3	+1.0	–
UK Equity	521.7	549.2	+0.9	–
Overseas Eq.	586.6	617.5	+1.0	–
American	359.7	378.7	+4.1	–
Far East	630.2	663.4	+4.0	–
Property	266.8	280.9	+0.5	–
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	Bid Price	Offer Price	+ or -	Yield Gross
Providence Capital Life Ass. Co Ltd – Contd.				
UK Managed Initial		113.7	–0.1	–
Property Initial		167.5	—	–
Money Initial		80.4		–
Special Market Initial		132.6	+0.5	–
Japan Equity Initial		101.3	+0.3	–
North American Initial		83.8	+0.1	–
Pacific Initial		79.3	+0.6	–
Technology Initial		96.2	+4.4	–
Nat. Resources Initial		54.9	–0.3	–
European Initial		112.5	+0.2	–
Residential Prop Init.		99.4	—	–
Swiss Equities Initial		40.5	—	–
Hong Kong Initial		48.8	–0.2	–
UK High Inc Eq Init.		64.6	–0.6	–
Int Fixed Interest Init.		49.3	+0.1	–
Int. Managed Init.		57.1	—	–
HIP Managed Init.		112.6	+0.4	–
HIP Managed II Initial		97.7	—	–
Broker Funds				
High Performance	75.7	79.8	+0.5	–
Townhill Mngd Fd Acc.	51.7	54.5	+1.4	–
YRA Executive Fd	94.4	99.5	+0.2	–
£ Global Growth Acc.	130.5	137.6	—	–
£ High Income Money Acc.	111.4	117.7	—	–
IM Balanced		56.5	+0.2	–
H.F. Speculator Fd.		153.9	+0.9	–
PEP Acorn II		121.4	+0.9	–
PEP Cautionary		80.4	—	–
AAFS Int Man Fund		118.7	+1.5	–
Andrews-Green Inv Port.		99.9	+0.5	–
Individual Pension Funds				
UK Equity Acc.	216.9	228.8	–0.6	–
UK Fixed Interest Acc.	175.7	185.4	+0.3	–
Intl Equities Acc.	252.0	265.9	–1.1	–
UK Managed Acc.	179.3	189.1	–0.1	–
Property Acc.	211.5	223.2	—	–
Money Acc.	140.0	147.7	+0.1	–
Special Market Acc.	266.2	280.9	+0.6	–
Japan Equity Acc.	206.4	217.8	+0.8	–
North American Acc.	131.6	138.9	+0.4	–
Pacific Acc.	195.2	206.0	+1.7	–
Technology Acc.	160.0	168.8	+9.0	–
Natural Resources Acc.	107.8	113.8	–0.6	–
European Acc.	151.6	160.0	+0.3	–
Residential Prop Acc.	109.7	115.8	—	–
Swiss Equities Acc.	42.0	44.4	—	–
Hong Kong Acc.	50.7	53.5	–0.2	–
UK High Inc Eqs Acc.	71.4	75.4	–0.7	–
Int Fixed Interest Acc.	52.8	55.7	—	–
Int Managed Acc.	61.1	64.4	–0.1	–
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

OFFSHORE AND OVERSEAS

GUERNSEY (SIB RECOGNISED)

[illegible]

MANAGEMENT SERVICES

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

LUXEMBOURG (SIB RECOGNISED)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

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SWITZERLAND (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

IRELAND (SIB RECOGNISED)

GUERNSEY (**)

JERSEY (**)

ISLE OF MAN (**)

LUXEMBOURG (**)

OFFSHORE INSURANCES

OTHER OFFSHORE FUNDS

	Bid Price	Offer Price	+ or −	Yield Gross
US Pacific Stock Fund				
NAV May 15	$16.70		—	–
Unico Financial Services SA Lux				
DG Investment Bank Ltd				
Unico Invest. Fund	DM70.49	72.70	—	3.00
Unico Equity Fund	DM64.52	66.46	—	3.00
Union-Investment-Gesellschaft GmbH				
Unifonds	DM37.85	39.80	−0.20	–
Unirak	DM77.31	81.20	−4.90	–
Unirenta	DM34.62	35.70	—	–
Viking Fund-SICAV				
@NAV May 9 Ecu80.07				
Warburg Inv Mngmt (Isle of Man) Ltd				
Mercury 90:10 Trust (Sicav)				
Dollar Fd BOPUPs	$10.14	10.15	—	–
Dollar Fd OPUPs	$10.30	10.35	—	–
Sterling Fd BOPUPs	£10.09	10.10	—	–
Sterling Fd OPUPs	£11.34	11.40	—	–
DM Fd BOPUPs	DM9.94	9.95	—	–
DM Fd OPUPs	DM9.80	9.85	—	–
Yen Fd BOPUPs	$7.27	7.28	—	–
Yen Fd OPUPs	$10.20	10.25	—	–
Wardley Investment Services Ltd				
Wardley S.E. Asia Tst	$12.45	13.22	−0.01	0.83
Japanese Warrants	$8.34	8.84	+0.32	–
Asian Warrants	$9.35	9.90	+0.22	–
European Warrants	$10.4	11.02	—	–
Wells Fargo U.S. IT Fund				
NAV May 15	$9.85		—	–
Xiphias International Investment Fd Ltd				
Xiphias Int USD	$1.0031		—	–
Xiphias Int ECU	Ecu1.0067		—	–
Yamaichi Dynamic Mngt Co SA				
Advanced Tech	$22.99		—	–

Money Market Trust Funds

	Gross	Net	Gr Equiv CAR	Int Cr
CAF Money Management Co Ltd				
48 Pembury Road, Tonbridge TN9 2JD			0732 770114	
Cafcash Deposit Fd	14.65	–	15.70	3-Mth

Money Market Bank Accounts

UNIT TRUST NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Yen firm and dollar rallies

A FIRM Japanese yen and a rally by the dollar were the main features in subdued foreign exchange trading yesterday. There were no fresh factors to move the market, but the yen was boosted by covering of short positions as the D-Mark and Swiss franc lost their recent attraction.

The dollar lost ground in the Far East, but closed towards the top of the day's range in Europe after bouncing off technical support at Y150.50.

Earlier in Tokyo the dollar touched a low of Y150.85 on speculative selling, and the D-Mark also weakened against the yen to close at Y91.95, against Y93.25 on Monday. In Europe the cross rate between the D-Mark and yen held steady at Y91.95, but dealers said the West German currency is likely to continue its decline, possibly testing Y91.50 in the near future.

The dollar showed little reaction to weaker than expected US economic data, and the general uncertainty in the market could be gauged from the dollar's ability to move higher on ambiguous comments about British interest rates made by Mrs Margaret Thatcher the UK Prime Minister. In answer to a question in parliament, Mrs Thatcher said she agreed with Mr John Major, the Chancellor of the Exchequer, that UK interest rates will be materially lower by the end of the year, but claimed to also agree with Mr Norman Lamont, Chief Secretary at the Treasury, that an interest rate forecast at the moment would be foolish. She added that "I don't think they're quite as opposite as the question indicated."

The dollar rose against sterling on speculation that UK rates will fall, and this provided the momentum to drive the US currency higher against other European currencies, including the D-Mark. There was virtually no reaction to news that US industrial production fell 0.4 per cent in April. The figure was expected to be flat, but showed the first decline since January, mainly as a result of a sharp fall in car production.

A fall in US capacity utilisation to 83 per cent from 83.5 also indicated that the economy could be slowing, but dealers said there is not yet enough evidence to suggest an easing of the Federal Reserve's monetary stance.

At the London close the dollar had improved to DM1.6465 from DM1.6445; to SFr1.3980 from SFr1.3955; and to FFr5.5575 from FFr5.5425, but fell to Y151.40 from Y152.75. According to the Bank of England the dollar's index eased to 66.9 from 67.0.

Sterling weakened in New York on Mrs Thatcher's comments, but was only a little easier at the London close. The pound fell 40 points to $1.6775 in London. It also declined to DM2.7625 from DM2.7650; to SFr2.3450 from SFr2.3475; and to Y254.00 from Y256.75, but rose to FFr9.3225 from FFr9.3200. Shortly after in New York sterling declined to $1.6730 and to DM2.7550. The pound's index was unchanged at 87.5.

£ IN NEW YORK

May.15	Latest	Previous Close
£ Spot	1.6735-1.6745	1.6820-1.6830
1 month	0.97-0.96pm	1.01-1.00pm
3 months	2.76-2.74pm	2.75-2.74pm
12 months	9.52-9.45pm	9.67-9.57pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	May.15	Previous
8.30	[illegible]	[illegible]
9.00	[illegible]	[illegible]
10.00	[illegible]	[illegible]
11.00	[illegible]	[illegible]
Noon	[illegible]	[illegible]
1.00	[illegible]	[illegible]
2.00	[illegible]	[illegible]
3.00	[illegible]	[illegible]
4.00	[illegible]	[illegible]

CURRENCY RATES

May.15	Bank rate %	Special* Drawing Rights	European † Currency Unit
Sterling	[illegible]	0.787920	0.737290
U.S. Dollar	[illegible]	1.32607	1.24335
Canadian $	[illegible]	1.56839	1.46604
Austrian Sch.	[illegible]	15.3148	14.3931
Belgian Franc	[illegible]	45.0565	42.3331
Danish Krone	[illegible]	8.31040	7.80888
Deutsche Mark	[illegible]	2.17635	2.04594
Dutch Guilder	[illegible]	2.44899	2.29921
French Franc	[illegible]	7.33980	6.89638
Italian Lira	[illegible]	1600.84	1504.46
Japanese Yen	[illegible]	202.706	187.336
Norway Krone	[illegible]	8.49817	7.95311
Spanish Peseta	[illegible]	136.771	128.328
Swedish Krona	[illegible]	7.96603	7.46633
Swiss Franc	[illegible]	1.85186	1.73969
Greek Drach.	[illegible]	N/A	202.600
Irish Punt	[illegible]	N/A	0.763262

† European Commission Calculations. * All SDR rates are for May.14

CURRENCY MOVEMENTS

May.15	Bank of England Index	Morgan* Guaranty Changes %
Sterling	87.5	[illegible]
U.S. Dollar	66.9	[illegible]
Canadian Dollar	102.7	[illegible]
Austrian Schilling	109.9	[illegible]
Belgian Franc	111.4	[illegible]
Danish Kroner	111.0	[illegible]
Deutsche Mark	119.1	[illegible]
Swiss Franc	116.6	[illegible]
Guilder	115.5	[illegible]
French Franc	104.7	[illegible]
Lira	101.7	[illegible]
Yen	122.2	[illegible]

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100). Rates are for May.14

OTHER CURRENCIES

May.15	£	$
Argentina	[illegible]	[illegible]
Australia	[illegible]	[illegible]
Brazil	[illegible]	[illegible]
Finland	[illegible]	[illegible]
Greece	[illegible]	[illegible]
Hong Kong	[illegible]	[illegible]
Iran	[illegible]	[illegible]
Korea(Sth)	[illegible]	[illegible]
Kuwait	0.48850-0.48890	0.29080-0.29100
Luxembourg	57.05-57.15	34.00-34.10
Malaysia	4.5365-4.5475	2.6910-2.6930
Mexico	4762.70-4765.50	2822.00-2832.00
N. Zealand	2.9400-2.9445	1.7440-1.7450
Saudi Ar.	6.3000-6.3055	3.7500-3.7510
Singapore	3.1165-3.1235	1.8485-1.8495
S. Af (Cm)	4.4340-4.4450	2.6315-2.6330
S. Af (Fn)	6.6095-6.7420	3.9215-4.0000
Taiwan	44.05-44.65	27.45-27.50
U.A.E.	6.1680-6.1750	3.6720-3.6730

*Selling rate

EURO-CURRENCY INTEREST RATES

May 15	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	14 13/16-14 11/16	14 13/16-14 11/16	15-14 13/16	15 1/16-15 1/4	15 3/16-15 1/16	15 3/16-15 1/16
US Dollar	8 1/4-8 1/8	8 1/4-8 1/8	8 5/16-8 3/16	8 7/16-8 5/16	8 5/8-8 1/2	8 7/8-8 3/4
Can. Dollar	13 5/8-13 1/2	13 5/8-13 1/2	13 11/16-13 9/16	13 5/8-13 1/2	13 5/8-13 1/2	13 1/4-13
D. Guilder	8 1/4-8 1/8	8 1/8-8	8 5/16-8 3/16	8 1/2-8 3/8	8 3/4-8 5/8	8 15/16-8 13/16
Sw. Franc	8 3/4-8 5/8	8 3/4-8 5/8	8 7/8-8 3/4	8 7/8-8 3/4	8 7/8-8 3/4	8 15/16-8 13/16
Deutschmark	8-7 7/8	8 1/16-7 15/16	8 1/16-7 15/16	8 1/8-8	8 7/16-8 5/16	8 11/16-8 9/16
Fr. Franc	9 3/4-9 5/8	9 3/4-9 5/8	9 7/8-9 3/4	9 7/8-9 3/4	10-9 7/8	10 1/8-10
Italian Lira	13-11	14 1/4-13 1/2	13 1/4-12 3/4	12 5/8-12 1/8	12 5/8-12 1/8	12 5/8-12 1/8
Belgian Franc	10 1/8-10	10 1/8-10	10 1/8-10	10-9 7/8	10-9 7/8	9 15/16-9 13/16
Yen	7 3/8-7 1/4	7 3/8-7 1/4	7 1/2-7 3/8	7 5/8-7 1/2	7 3/4-7 5/8	7 7/8-7 3/4
D.Krone	10 5/8-10 1/2	10 5/8-10 1/2	10 5/8-10 1/2	10 5/8-10 1/2	10 5/8-10 1/2	10 5/8-10 1/2
Asian $Sing	8 1/4-8	8 3/8-8 1/4	8 3/8-8 1/4	8 5/8-8 1/2	8 5/8-8 1/2	9 1/16-8 15/16

Long term Eurodollars: two years [illegible] per cent; three years [illegible] per cent; four years [illegible] per cent; five years [illegible] per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

POUND SPOT- FORWARD AGAINST THE POUND

May.15	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.6770-1.6875	1.6770-1.6780	0.97-0.95cpm	6.87	2.77-2.74pm	6.57
Canada	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
W. Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portugal	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ecu	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Commercial rates taken towards the end of London trading. Six-month forward dollar [illegible] 12 month [illegible]

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

May.15	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.6770-1.6875	1.6770-1.6780	0.97-0.95cpm	6.87	2.77-2.44pm	6.21
Ireland†	1.6250-1.6320	1.6250-1.6260	0.41-0.37cpm	2.87	1.26-1.16pm	2.97
Canada	1.1770-1.1830	1.1805-1.1815	0.54-0.57cdis	-5.65	1.49-1.54dis	-5.14
Netherlands	1.8445-1.8545	1.8495-1.8505	0.01-0.03cdis	-0.13	0.07-0.09dis	-0.17
Belgium	33.95-34.15	34.00-34.10	2.00-8.00cdis	-1.76	9.00-19.00dis	-1.65
Denmark	6.26-6.29¼	6.29¼-6.29¾	1.15-1.45oredis	-2.49	3.40-4.10dis	-2.39
W. Germany	1.6410-1.6500	1.6460-1.6470	0.04-0.02pfpm	0.22	0.05-0.02pm	0.09
Portugal	145.45-145.90	145.75-145.85	88-98cdis	-7.66	270-285dis	-7.62
Spain	102.80-103.20	103.10-103.20	53-58cdis	-6.46	153-163dis	-6.13
Italy	1205¾-1212	1209¼-1209¾	4.20-5.00liredis	-4.57	11.00-12.00dis	-3.81
Norway	6.38½-6.41¼	6.40¾-6.41¼	1.70-2.05oredis	-3.51	5.20-5.80dis	-3.44
France	5.52½-5.56¼	5.55¾-5.56	0.68-0.73cdis	-1.52	1.90-2.00dis	-1.41
Sweden	5.99¼-6.01¼	6.01-6.01¼	2.17-2.32oredis	-4.49	6.50-6.85dis	-4.45
Japan	150.45-151.60	151.35-151.45	0.15-0.13ypm	1.15	0.44-0.41pm	1.15
Austria	11.56¾-11.58¼	11.56¾-11.57¼	0.15pm-0.25gdis	-0.05	0.20-1.30dis	-0.26
Switzerland	1.3875-1.4025	1.3975-1.3985	0.05-0.08cdis	-0.56	0.12-0.18dis	-0.43
ECU†	1.2400-1.2415	1.2400-1.2410	0.22-0.21cpm	2.09	0.63-0.60pm	1.96

Commercial rates taken towards the end of London trading. † UK, Ireland and ECU are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu May.15	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.1679	42.3331	+0.39	+0.49	±1.5508
Danish Krone	7.79845	7.80888	+0.13	+0.15	±1.6453
German D-Mark	2.04446	2.04594	+0.07	+0.17	±1.1762
French Franc	6.85684	6.89638	+0.58	+0.69	±1.3610
Dutch Guilder	2.30358	2.29921	-0.19	-0.12	±1.5272
Irish Punt	0.763159	0.763262	+0.01	+0.08	±1.6689
Italian Lira	1529.70	1504.46	-1.65	-1.58	±1.5162
Spanish Peseta	132.889	128.328	-3.38	-3.47	±4.2705

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

EXCHANGE CROSS RATES

May.15	£	$	DM	Yen	F Fr.	S Fr.	N Fl.	Lira	C $	B Fr.
£	1	1.677	2.762	254.0	9.322	2.345	3.102	2089	1.981	57.10
$	0.596	1	1.647	151.5	5.559	1.398	1.850	1210	1.181	34.05
DM	0.362	0.607	1	91.96	3.375	0.849	1.123	734.6	0.717	20.67
YEN	3.937	6.602	10.87	1000.	36.70	9.232	12.21	7988	7.799	224.8
F Fr.	1.073	1.799	2.963	272.5	10.	2.516	3.328	2177	2.125	61.25
S Fr.	0.426	0.715	1.178	108.3	3.975	1	1.323	865.2	0.845	24.35
N Fl.	0.322	0.541	0.890	81.88	3.005	0.756	1	654.1	0.639	18.41
Lira	0.493	0.827	1.361	125.2	4.594	1.156	1.529	1000.	0.976	28.14
C $	0.505	0.847	1.394	128.2	4.706	[illegible]	[illegible]	[illegible]	1	[illegible]
B Fr.	1.751	2.937	4.837	444.8	16.33	[illegible]	[illegible]	[illegible]	[illegible]	100.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES AND OPTIONS

LIFFE LONG GILT FUTURES OPTIONS £50,000 64ths of 100%

Strike Price	Calls-settlements Jun	Calls-settlements Sep	Puts-settlements Jun	Puts-settlements Sep
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Estimated volume total, Calls [illegible] Puts [illegible]. Previous day's open int. Calls [illegible] Puts [illegible]

LIFFE US TREASURY BOND FUTURES OPTIONS $100,000 64ths of 100%

Strike Price	Calls-settlements Jun	Calls-settlements Sep	Puts-settlements Jun	Puts-settlements Sep
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LIFFE BUND FUTURES OPTIONS DM250,000 points of 100%

Strike Price	Calls-settlements Jun	Calls-settlements Sep	Puts-settlements Jun	Puts-settlements Sep
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LIFFE EUROMARK OPTIONS DM1m points of 100%

Strike Price	Calls-settlements Jun	Calls-settlements Sep	Puts-settlements Jun	Puts-settlements Sep
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LIFFE EURODOLLAR OPTIONS $1m points of 100%

Strike Price	Calls-settlements Jun	Calls-settlements Sep	Puts-settlements Jun	Puts-settlements Sep
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LIFFE SHORT STERLING OPTIONS £500,000 points of 100%

Strike Price	Calls-settlements Jun	Calls-settlements Sep	Puts-settlements Jun	Puts-settlements Sep
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON (LIFFE)

20-YEAR 9% NOTIONAL GILT £50,000 32nds of 100%

	Close	High	Low	Prev.
Jun	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]

US TREASURY BONDS 8% $100,000 32nds of 100%

	Close	High	Low	Prev.
Jun	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]

6% NOTIONAL GERMAN GOVT. BOND DM250,000 100ths of 100%

	Close	High	Low	Prev.
Jun	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]

6% NOTIONAL LONG TERM JAPANESE GOVT. BOND Y100m 100ths of 100%

	Close	High	Low	Prev.
Jun	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]

THREE MONTH STERLING £500,000 points of 100%

	Close	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

THREE MONTH EURODOLLAR $1m points of 100%

	Close	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

THREE MONTH EUROMARK DM1m points of 100%

	Close	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

THREE MONTH ECU ECU1m points of 100%

	Close	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FT-SE 100 INDEX £25 per full index point

	Close	High	Low	Prev.
Jun	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]

POUND-$ (FOREIGN EXCHANGE)

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.6775	1.6679	1.6500	[illegible]	[illegible]

STERLING £25,000 $ per £

	Latest	High	Low	Prev.
Jun	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]

CHICAGO

U.S. TREASURY BONDS (CBT) 8% $100,000 32nds of 100%

	Latest	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

U.S. TREASURY BILLS (IMM) $1m points of 100%

	Latest	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

SWISS FRANC (IMM) SFr 125,000 $ per SFr

	Latest	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

JAPANESE YEN (IMM) Y12.5m $ per Y100

	Latest	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

DEUTSCHE MARK (IMM) DM125,000 $ per DM

	Latest	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

THREE-MONTH EURODOLLAR (IMM) $1m points of 100%

	Latest	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STANDARD & POORS 500 INDEX $500 times index

	Latest	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per £1)

Strike Price	Calls				Puts			
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

10 YEAR 10% NOTIONAL FRENCH BOND (MATIF) FUTURES

	Close	High	Low	Change	Yield	Open Int.
June	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
September	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
December	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
March	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OPTION ON LONG-TERM FRENCH BOND (MATIF)

Strike	Calls September	Calls December	Puts June	Puts September	Puts December
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

THREE-MONTH PIBOR FUTURES (MATIF) (Paris Interbank offered rate)

	Close	High	Low	Change
June	[illegible]	[illegible]	[illegible]	[illegible]
September	[illegible]	[illegible]	[illegible]	[illegible]
December	[illegible]	[illegible]	[illegible]	[illegible]
March	[illegible]	[illegible]	[illegible]	[illegible]

CAC-40 FUTURES (MATIF) Stock Index

	Close	High	Low	Change
May	[illegible]	[illegible]	[illegible]	[illegible]
June	[illegible]	[illegible]	[illegible]	[illegible]
September	[illegible]	[illegible]	[illegible]	[illegible]

BASE LENDING RATES

	%		%		%
ABN Bank	15	Coutts & Co	15	NatWestminster	15
Adam & Company	15	Cyprus Popular Bk	15	Northern Bank Ltd	15
Allied Trust Bank	15	Dunbar Bank PLC	15	Nykredit Mortgage Bank	15½
Allied Irish Bank	15	Duncan Lawrie	15	Provincial Bank PLC	16
● Henry Ansbacher	15	Equatorial Bank plc	15	Roxburghe Guarantee	15
Associates Cap Corp	15	Exeter Trust Ltd	15½	Royal Bk of Scotland	15
● B & C Merchant Bank	15	Financial & Gen. Bank	15	Royal Trust Bank	15
Bank of Baroda	15	First National Bank Plc	16	● Smith & Williamson Secs	15
Banco Bilbao Vizcaya	15	● Robert Fleming & Co	15	Standard Chartered	15
Bank Credit & Comm	15	Robert Fraser & Ptnrs	15	TSB	15
Bank of Cyprus	15	Girobank	15	UBank Plc	15
Bank of Ireland	15	● Guinness Mahon	15	United Bk of Kuwait	15
Bank of India	15	HFC Bank plc	15	United Mizrahi Bank	15
Bank of Scotland	15	● Hambros Bank	15	Unity Trust Bank Plc	15
Banque Belge Ltd	15	Heritable & Gen Inv Bank	15	Western Trust	15
Barclays Bank	15	● Hill Samuel	§15	Westpac Bank Corp	15
Benchmark Bank PLC	15	C. Hoare & Co	15	Whiteaway Laidlaw	15½
Brit Bk of Mid East	15	Hongkong & Shangh	15	Yorkshire Bank	15
● Brown Shipley	15	● Leopold Joseph & Sons	15		
CL Bank Nederland	15	Lloyds Bank	15		
● Charterhouse Bank	15	Meghraj Bank Ltd	15		
Citibank NA	15	McDonnell Douglas Bk	15		
City Merchants Bank	15	Midland Bank	15		
Clydesdale Bank	15	Mount Banking	15		
Comm. Bk N East	15	Nat Bk of Kuwait	15		
Co-operative Bank	*15				

● Members of British Merchant Banking & Securities Houses Association. * Deposit rate 5.5%. Sovereign 8.5%. Top Tier-£50,000+ instant access 13.7%. ‡ Mortgage base rate. § Demand deposit 9%. Mortgage 15.2% - 15.65%

MONEY MARKETS

London rates steady

INTEREST RATES were little changed on the London money market yesterday. The important three-month interbank rate eased to 15⅛-15⅛ per cent from 15¼-15⅛, while one-year money was unchanged at 15⅛-15⅛. On Liffe short sterling futures lost ground in nervous trading. The September contract opened at 85.13, and touched 85.14 before closing at 85.07 against 85.11 previously.

UK clearing bank base lending rate 15 per cent from October 5

Day-to-day credit was in short supply on the money market. The Bank of England initially forecast a shortage of £850m, but revised this to £800m at noon. Total help of £821m was provided.

Before lunch the authorities bought £477m bank bills in band 2 at 14⅞ per cent. In the afternoon another £244m bills were purchased, by way of £69m bank bills in band 1 at 14⅞ per cent and £175m bank bills in band 2 at 14⅞ per cent. Late assistance of around £100m was also provided.

Bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £294m, with Exchequer transactions absorbing £675m. These outweighed a fall in the note circulation adding £70m to liquidity and bank balances above target of £45m.

In Frankfurt call money firmed to 7.90 from 7.85 per cent, as credit conditions remained tight on the domestic money market. Dealers generally expect the central bank to inject liquidity at this week's securities repurchase agreement tender, in compensation for money flowing out of the market, via tax payments.

The Bundesbank has offered a two-tranche tender for 35-day and 63-day funds, at variable bid rates. Two earlier pacts totalling DM19.6bn expire today.

Banks reserve holdings at the Bundesbank on Friday rose to DM59.4bn from DM57.1bn, but averaged only DM57.6bn for the first 13 days of the month, against expectations that the Bundesbank will set an average requirement for the whole month of around DM58bn.

In Amsterdam the Dutch Central Bank allocated Fl 10.7bn of six-day special advances at this week's tender, to replace an expiring six-day facility of FL 7.74bn. The interest rate was unchanged at 7.9 per cent.

In Paris the Bank of France relieved tightness in the money market by providing banks with overnight funds at a rate of 10¼ per cent.

FT LONDON INTERBANK FIXING

(11.00 a.m. May.15)	3 months US dollars		6 months US Dollars	
	bid 8⅜	offer 8½	bid 8⅝	offer 8¾

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK

Lunchtime		Treasury Bills and Bonds			
Prime rate	10	One month	7.55	Three year	[illegible]
Broker loan rate	9¾	Two month	7.61	Four year	[illegible]
Fed.funds	[illegible]	Three month	[illegible]	Five year	[illegible]
Fed.funds at intervention	[illegible]	Six month	[illegible]	Seven year	[illegible]
		One year	[illegible]	10-year	[illegible]
		Two year	[illegible]	30-year	[illegible]

May.15	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Paris	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Zurich	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Amsterdam	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Tokyo	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Milan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Brussels	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dublin	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON MONEY RATES

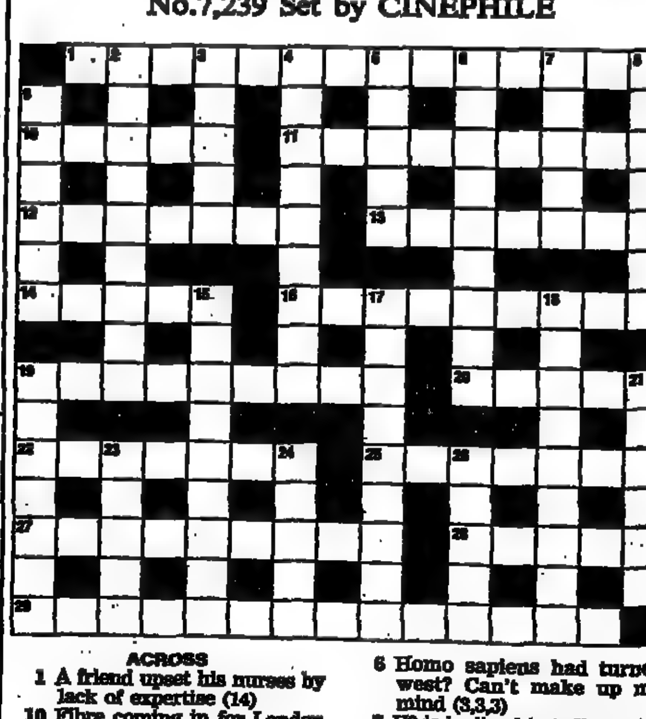
May 15	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Interbank Bid	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling CDs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Local Authority Deps.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Local Authority Bonds	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discount Mkt Deps.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Company Deposits	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Finance House Deposits	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Treasury Bills (Buy)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bank Bills (Buy)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Fine Trade Bills (Buy)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dollar CDs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SDR Linked Dep. Offer	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SDR Linked Dep. Bid	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ECU Linked Dep. Offer	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ECU Linked Dep. Bid	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Treasury Bills (sell): one-month [illegible] per cent; three months [illegible] per cent; Bank Bills (sell): one-month [illegible]; three months [illegible] per cent; Treasury Bills: Average tender rate of discount [illegible] p.c. ECGD Fixed Rate Sterling Export Finance. Make up day April 30 1990. Agreed rates for period May 26 to June 25, 1990, Scheme I: [illegible] p.c. Scheme II & III: [illegible] p.c. Reference rate for period March 31, 1990 to April 30, 1990, Scheme IV&V: [illegible] p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 15½ from May 1, 1990; Bank Deposit Rates for sums at seven days notice [illegible] per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month [illegible] per cent; one-three months [illegible] per cent; three-six months [illegible] per cent; six-nine months [illegible] per cent; nine-twelve months [illegible] per cent; Under £100,000 [illegible] per cent from Oct 9, 1989. Deposits withdrawn for cash [illegible] per cent.

JOTTER PAD

CROSSWORD

No.7,239 Set by CINEPHILE



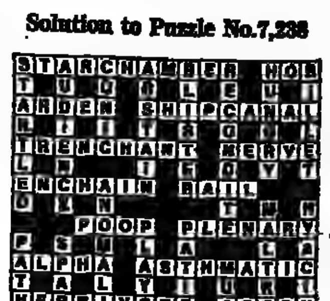
ACROSS

1 A friend upset his nurses by lack of expertise (14)
10 Fibre coming in for London (5)
11 Like fresh hay, we hear, before I have a serious illness (9)
12 Nearly put cross in entrance to dance (7)
13 Newspaper gets prison term for brightly clad singer (7)
14 River contributing to catarrh in Europe (5)
16 Chap involved with a girl at the heart of Sogat (9)
19 Old clock for dry places? Hardly! (9)
20 Who cut tree? Drown, or I may take over (5)
22 Goal reversal due, as pussy said (7)
25 Swore violently (as one might 'ave said) – it's yellow (7)
27 Jew has exchanged most of Kenya for opening in Zimbabwe (9)
28 Make a hole in procedure (5)
29 Odd bits of Camembert cooked: a disc jockey is upset about it (8,6)

DOWN

2 Bass, perhaps: I am substituted for Leonard in ill-will (4,5)
3 It's believed either way (5)
4 Not bound to peddle gun, possibly (9)
5 Original thoughts make a half-quid easily (5)
6 Homo sapiens had turned west? Can't make up my mind (3,3,3)
7 U9 is inclined to tedium (5)
8, 9 Malicious gossip causes Scots anger about poor old man (13)
15 Wheels loosened before in another place (9)
17 Disapproval of rules for a bit of bridge is on my head (9)
18 Knight called Maurice opposed to caliph in good spirits (9)
19, 21 Tell me, without loud disturbance, where the astronauts are (7,6)
23 Holy mountain, a model for small houses (5)
24 Doctor's back (provisional statement) (5)
26 Plant discovered by Rose du Maurier (5)

Solution to Puzzle No.7,238



WORLD STOCK MARKETS

AUSTRIA | BELGIUM/LUXEMBOURG | DENMARK | FINLAND | FRANCE | GERMANY | ITALY | NETHERLANDS | NORWAY | SPAIN | SWEDEN | SWITZERLAND | SOUTH AFRICA | JAPAN | AUSTRALIA | HONG KONG | MALAYSIA | SINGAPORE

[illegible]

CANADA

TORONTO
2pm prices May 15

[illegible]

INDICES

NEW YORK

DOW JONES	May 14	May 11	May 10	May 9	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
◊Industrials	2821.53	2801.58	2738.51	2732.88	2821.53 (14/5)	2543.24 (30/1)	2810.15 (2/1/90)	41.22 (2/7/32)
Home Bonds	89.74	89.44	89.28	88.97	93.04 (3/1)	88.48 (2/5)	—	—
Transport	1180.65	1177.45	1160.74	1161.45	1201.10 (2/1)	1031.85 (30/1)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	217.12	216.99	212.53	213.78	236.23 (2/1)	208.09 (30/4)	236.23 (2/1/90)	10.50 (8/4/32)

◊Day's High 2837.87 (2810.50) Low 2795.75 (2743.02)

STANDARD AND POOR'S	May 14	May 11	May 10	May 9	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	354.75	352.00	343.82	342.86	359.69 (2/1)	322.98 (30/1)	359.80 (9/10/89)	4.40 (1/6/32)
Industrials	412.62	409.45	400.21	398.86	412.62 (14/5)	371.92 (30/1)	411.20 (2/1/90)	3.62 (21/6/32)
Financial	29.05	28.70	27.94	27.86	31.87 (3/1)	26.59 (27/4)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	193.65	192.24	188.14	187.49	198.00 (2/1)	178.43 (30/1)	199.34 (9/10/89)	4.46 (25/4/42)
Amex Mkt. Value	354.34	[illegible]	[illegible]	[illegible]	382.45 (5/1)	342.64 (24/4)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	441.61	438.10	433.20	431.34	460.90 (3/1)	410.72 (30/1)	485.73 (9/10/89)	54.87 (31/10/72)

	May 4	Apr 27	Apr 20	year ago (approx.)
Dow Industrial Div. Yield	4.05	4.15	4.07	3.51

	May 9	May 2	Apr 25	year ago (approx.)
S & P Industrial div. yield	3.07	3.13	3.13	3.17
S & P Ind. P/E ratio	15.20	14.85	14.72	12.92

NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Closing price	Change on day
Fannie Mae	4,114,400	37⅞	− ⅛
Philip Morris	3,706,400	44⅞	+ ⅛
Du Pont	2,593,800	40⅞	+ 1⅛
IBM	2,306,300	114⅞	+ ⅞
Gen. Electric	2,287,900	68⅞	+ ⅞
Am. Express	2,118,800	29⅞	+ ⅞
Bristol Myers	2,078,100	60	− ⅞
Texas Ut.	2,057,600	36⅞	—
Varity Corp.	1,965,000	3⅞	+ ⅞
Exxon	1,936,500	48	+ ⅞

TRADING ACTIVITY

† Volume (Millions)	May 14	May 11	May 10
New York	225.410	236.035	158.460
Amex	14.026	13.409	12.701
NASDAQ	(u)	167.564	142.487
Issues Traded	2,048	1,992	1,962
Rises	1,061	1,269	844
Falls	529	338	611
Unchanged	458	390	507
New Highs	120	81	47
New Lows	34	34	52

CANADA

TORONTO	May 14	May 11	May 10	May 9	1990 HIGH	1990 LOW
Metals & Minerals	3122.00	3138.90	3084.80	3032.50	3453.05 (4/1)	2850.80 (25/4)
Composite	3526.60	3535.00	3486.50	3464.10	4009.47 (3/1)	3334.28 (1/5)
MONTREAL Portfolio	1821.48	1852.08	1806.57	1792.72	2060.90 (3/1)	1720.25 (27/4)

Base values of all indices are 100 except NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals—1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

AUSTRALIA | AUSTRIA | BELGIUM | DENMARK | FINLAND | FRANCE | GERMANY | HONG KONG | IRELAND | ITALY | JAPAN | MALAYSIA | NETHERLANDS | NORWAY | PHILIPPINES | SINGAPORE | SOUTH AFRICA | SOUTH KOREA | SPAIN | SWEDEN | SWITZERLAND | TAIWAN | THAILAND | WORLD

[illegible]

TOKYO - Most Active Stocks
Tuesday May 15 1990

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nippon Mining	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nippon Steel	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Kurabo	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
NKK	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Kawasaki Steel	[illegible]	[illegible]	[illegible]	Mitsui Engineering	[illegible]	[illegible]	[illegible]

3pm prices May 15

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		— A — A — A —								
37½	20¼	AAR	.48	2.2	13	320	22¼	21¾	22	
9¾	8	ACM n	1.01	12.		131	8⅝	8½	8½	− ⅛
11⅝	9¾	ACMIn	1.26	13.		1416	10	9¾	9⅞	− ⅛
9⅞	7¾	ACM M n	1.01	13.		306	7⅞	7¾	7⅞	
12⅛	11	ACMMM				282	11	d10⅞	10⅞	− ⅛
11½	9⅜	ACM Sc	1.26	13.		1682	9⅞	9⅝	9¾	− ⅛
9¾	8⅛	ACMSp	1.01	12.		421	8½	8¼	8⅜	
22⅝	14⅞	AL Lab	.16	.7	18	103	21¾	21½	21⅝	− ⅛
4⅛	3	AMCA	.20e	6.4	9	4	3⅛	3⅛	3⅛	+ ⅛
6⅛	2¼	AM Ind			6	589	2½	2⅜	2½	
23¾	11	AM In pf	2	19.		187	11⅛	d10½	10⅞	− ⅛
107¼	52½	AMR			13	4228	65¼	64¼	65¼	+ ⅜
4⅞	3	ARX				45	3⅜	3⅜	3⅜	+ ⅛
72⅞	39	ASA	3a	6.2		1762	48⅞	47¾	48⅝	
71½	55⅛	AbtLab	1.68	2.4	18	3781	u71⅞	71⅛	71⅞	
38⅛	27⅞	AbtLb wi				5	38	38	38	
17⅛	11¼	Abitibi g	.50			12	12⅜	12⅛	12⅛	− ⅛
13	8⅞	AcmeC	.40	4.3	11	10	9½	9¼	9⅜	
9¾	7⅝	AcmeE	.32	3.6	11	88	9⅛	8⅞	9	+ ⅛
40	28⅝	Acuson			25	322	38⅞	38½	38⅝	− ⅛
16½	13⅝	AdaEx	2.09e	13.		z92	16¼	16¼	16⅛	− ⅛
15⅛	8⅞	Adobe				17	12	11⅝	12	+ ⅛
10⅜	6⅞	AMD			22	11105	10⅜	9⅞	10¼	+ ⅜
35	28¼	AMD pf	3	9.9		65	30¼	29⅞	30¼	+ ⅜
10⅛	4⅛	Advest	.16	3.6	56	63	4⅞	4½	4½	
62½	45¼	AetnLf	2.76	5.3	9	2581	51⅞	51½	51⅞	− ⅜
14	9¼	AflPb	.24	2.5		1723	10	9¾	9⅞	− ⅛
25	16½	Ahmans	.88	4.7	8	1449	19	18½	18⅝	
3⅞	1⅞	Aileen				18	2¼	2⅛	2⅛	− ⅛
55	40	AirPrd	1.32	2.4	14	652	54½	54	54½	+ ½
48⅝	25	AirbFrt	.60	1.3	16	318	45⅛	44⅞	45⅛	− ¼
25⅛	15½	Airgas			16	109	17⅛	16⅞	17⅛	+ ⅛
20¼	16⅝	Airlease	2.40	14.	9	22	17½	17¼	17¼	− ⅛
23¾	21⅛	AlaP	pf2.05e	9.2		6	22⅜	22⅜	22⅜	− ⅛
10⅛	9	AlaP	dpf.87	8.3		19	9⅝	9⅝	9⅝	− ⅛

Continued on Page 47

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
89	78⅞	PSEG pf7.70		9.3		z60	82½	82½	82½	−1⅛
3⅛	1¼	Pablick			6	64	1¼	d 1⅛	1⅛	
59½	43⅞	PR Cem	.60a	1.7	7	3	46½	46½	46½	
22½	18⅝	PugetP	1.76	8.8	11	1486	20⅜	20⅛	20⅛	− ⅛
12⅜	9	PDPI n	1.28	13.		z200	9⅝	9½	9⅝	+ ⅛
12⅝	10⅞	PDIF n	1.28	13.		x65	11⅛	10⅞	10⅞	− ⅛
8	6⅛	PHIGB	.85	13.		x241	6½	6⅜	6½	
10⅜	9	PHYM	.76	8.5		x350	9⅛	9	9⅛	
9½	7⅞	PIGIT	.96	11.		x1056	8½	8¼	8½	+ ⅛
12⅝	10⅝	PIGM n	.88	8.7		x316	10⅝	10½	10⅝	
10¼	8⅞	PMMS	.75a	8.5		x406	9⅛	8⅞	8⅞	− ⅛
99¼	6⅝	PMOT	.87	12.		x779	7	6⅞	7	+ ⅛
9⅝	6¾	PMIT	.93	13.		x980	7⅛	7⅛	7⅛	
9⅜	6⅞	PPrIT	.93	13.		x4087	7	6⅞	7	+ ⅛
15¾	7½	QMS			10	989	16⅜	15⅞	15⅞	
13-16	5-32	Qantel				112	13-64	10-64	13-64	
66⅞	49⅞	QuakrO	1.40	2.3	20	807	60½	60	60⅛	− ⅛
18	11¼	QuakSC	.80	6.7	28	598	12	11⅞	12	+ ⅛
18½	11½	Quanex	.40	2.6	8	574	15½	15⅜	15⅜	− ⅛
31	22⅞	Quanx pf2.28		8.6		13	26½	26½	26½	
40½	18¾	Quantum	.44r	2.0	8	401	22½	22¼	22⅜	− ¼
13½	11	QstVl	1.20a	9.1		180	13⅛	13⅛	13⅛	− ⅛
14⅝	10¼	QstVC				136	14	13⅞	13⅞	− ⅛
39¾	32⅞	Questar	1.92	5.5	14	18	35	34⅞	34⅞	− ¼
18¼	11⅞	QkReily	.28a	2.0	12	48	14¼	13⅞	14¼	
		— R—R—R —								
11⅞	9⅝	RAC	In1.20a	11.		61	10½	10⅜	10½	+ ⅛
6⅜	1⅞	RAC	.46e	9.9	10	164	4⅝	4½	4⅝	
12⅞	6⅞	RLI Cp	.46	3.5	6	24	11⅞	11⅛	11⅞	− ⅛
19	10½	RMI Ti	[illegible]		.3	12	11⅞	11¼	11⅞	+ ¼
10¼	9⅞	ROC Fd	.28e	3.7		479	10⅜	10¼	10¼	+ ⅛
8¼	5¼	RPC			18	8	8⅜	8	8¼	+ ⅛
6½	5⅛	RPS	.72e	14.	7	185	5⅞	5¼	5⅞	
85¼	49¼	Racal	.26	.4	28	582	59	57	58⅝	+2
5⅝	2⅛	Radice n				2	2¼	2⅛	2⅛	
101½	77¼	RalsPur	1.85	2.1	18	284	88⅞	88⅛	88⅞	− ⅛
6⅞	5⅛	RanarO	.96e	1.0	21	112	6⅛	6⅛	6⅛	− ⅛

AMEX COMPOSITE PRICES

3pm prices May 15

NASDAQ NATIONAL MARKET

3pm prices May 15

AMERICA

Dow trades calmly after Monday's record high

Wall Street

THE excitement on Wall Street abated yesterday, with equities trading in a narrowly mixed range after two days of strong gains and record highs, *writes Karen Zagor in New York.*

The stock market overcame pressure from profit-taking in the morning, with the Dow Jones Industrial Average moving higher at lunchtime after moving about 14 points lower earlier in the day.

At 2pm, the Dow was up 2.54 at 2,824.07 after falling 14 points early in the day. On Monday, the Dow closed at an all-time high of 2,821.53, up 19.95 on the previous close. Among broader market indices, the Standard & Poor's 500 was off 0.16 at 354.59 at 1.30pm.

Volume on the New York Stock Exchange was fairly active, with more than 116.2m shares changing hands by mid-day. On the big board, declines outpaced advances by a ratio of four to three.

The stock market shook off its early decline in spite of weakness in the bond market, where the Treasury's benchmark 30-year bond was down ⅛ of a point at 101⅞ to yield 8.6 per cent.

Neither equities nor bonds were impressed by yesterday's news that industrial output in April was 0.4 per cent lower. Excluding auto-related manufacturing, April's industrial output was essentially flat, but this was not enough to prompt the Federal Reserve to ease monetary policy.

Blue chip issues had a mixed morning. IBM gained $¾ to $114¾, Philip Morris slid $⅛ to $44¾, American Telephone & Telegraph fell $⅜ to $42⅞ and USX was unchanged at $34⅞.

Duke Power and Central Illinois Public Service were both active yesterday morning in dividend-related trading by institutions. Duke added $⅛ to $55⅝ and Central Illinois fell $⅛ to $21⅝. Niagara Mowhawk, another utility issue, rose $⅜ to $14⅛.

News Corp fell $⅜ to $15⅝ after the company reported a 53 per cent drop in operating income for the first nine months.

Nike jumped $2⅛ to $74⅛ in over-the-counter trading after an analyst repeated a buy recommendation and gave a six to 12 month price target of $86 for Nike issues. The company is expected to report its year-end earnings on July 9.

Durr-Fillauer Medical lost $1 to $21 on higher-than-usual volume although there were no corporate developments or news to explain the movement.

Standard Microsystems added $⅛ to $7⅝ in active, over-the-counter trading.

In the biotechnology sector, American General rose $1⅛ to $67. Investors expect a positive presentation of clinical data on the company's white blood cell stimulating factor at a meeting of the American Society of Clinical Oncology next week. In the same sector, Cytogen added $⅛ to $7, Immunex was unchanged at $17¼ and Cetus slipped $⅛ to $15¼.

Shares in Eagle-Picher plunged for a second day in active trading after an analyst removed the stock from a recommended list. In New York Stock Exchange composite trading, the issue was down $½ at $3⅛.

Canada

TORONTO steadied by midday after profit-taking depressed the market in early trade, leaving the TSE composite index 21.7 lower at 3,504.8. The TSE composite fell 21.7 to 3,504.8 on volume of 13.76. Declines led advances 273 to 156.

Metal shares drifted lower following a slight fall in most metal prices, analysts said. Alcan Aluminium fell C$⅛ to C$5⅞, Inco slipped C$⅛ to C$30⅝ and Cominco dropped C$1 to C$25⅝.

US economic figures released earlier had no effect on the market, analysts said. Investors are zeroing in on US consumer price index figures to be released later this week, but they also fear that Canadian corporate second quarter earnings will be weaker.

Helsinki awaits signs of sustained recovery

Enrique Tessieri examines economic history, and the reaction of equities in Finland

THE HELSINKI Stock Exchange has firmed over the past two days, apparently seeing a recovery of overseas interest,but it has been unable to mount a sustained recovery since the economic shocks of late last summer. Last Friday, the Unitas all-share index registered a new 1990 low of 562.2 against a high of 677.3 during a rally in January, when a number of European bourses hit their highs for the year.

The Unitas peaked for 1989 at 615.8 on April 18, but it had run into real trouble by September, when share prices went into a nosedive on the deterioration in Finland's economy. The trade deficit for that month was much larger than expected at FM2.28bn, against FM380m for the eight months to July; for the full year, the deficit widened to FM8.60bn from a surplus of FM783m in 1988.

Other bleak economic indicators undermined confidence: inflation rosefrom 5 to 6.5 per cent during the course of 1989; it escalated again, to around 7½ per cent in January and February this year but it has subsided a little since then, to 6.5 per cent in March and 6.2 per cent in April.

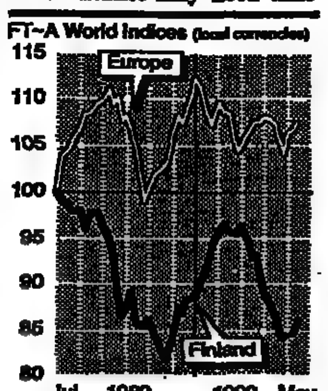
There are other indications of improvement. Helsinki interbank offered rates (Helibor) climbed to more than 16 per cent by the end of last year, but they have been in decline since March, and are down to around 13 per cent today.

But the stock exchange has been slow to follow. According to one Helsinki broker: "The big players have pulled out, and the market has been characterised by distress selling."

"Money just ran out and the big players, like the insurance companies, are short of liquidity. They would rather invest in foreign stocks, bonds or probably in real estate instead of the local stock market," says Mr Raul Lardot, a broker for Selin, a Helsinki stockbroker.

Mr Lardot believes that the market may pick up this autumn. "It's going to be a very quiet summer. Company interim reports coming out this June will be disappointing," he adds.

The market may need time



for a reappraisal. During the stock-market boom years of 1987-88, banks were making hefty profits from the Helsinki Stock Exchange, and from real estate. Financial liberalisation helped raise real estate prices in Finland by 36 per cent in 1988.

High interest rates put an end to the real estate and stock market boom. Finnish banks, which were hit hard by high interest rates, also saw their 1989 results undermined by debtwriteoffs, which surged to FM1.6bn in 1989.

They now have the opportunity to adjust. "Since banks cannot expect to make big sums of money from the stock market or real estate, they will have to lower overheads," said Mr Stefan Björkman, of the Helsinki-based Arctos.

Mr Rosr Nilsen, an analyst for Unitas Securities, the country's largest stockbroking house, offers a straw: "If the banks pull out of the stock market, someone will have to fill their place. I believe that the Government may be forced to liberalise [foreign shareholding restrictions] if it wants more foreign capital to come to Finland," he says.

However, this may be a medium term prospect, with parliamentary elections due in March 1991. In the meantime, volume is expected to drop significantly this year, and trading could be characterised by erratic fluctuations.

Both Unitas Securities and Selin believe that the Helsinki Stock Exchange will see some stimulus from the important structural changes which Finnish industry will have to undergo in the face of 1992.

Last January, Metsä-Serla, one of Finland's largest forest groups, bought aggressively into United Paper Mills (UPM), another large forest company. On January 18, volume reached an all-time high for the year of FM1.44bn.

Around then, for a few short, sweet days, the Helsinki Stock exchange left much of Europe in its wake. Yesterday, at much lower levels, the Unitas index closed 2.3 higher last night at 566.0 with most interest focused on free shares, indicating some improvement in foreign interest.

EUROPE

Scandinavia pauses after sprinting ahead

BOURSES were mixed to lower yesterday. Nordic markets consolidated after their hefty rises, while international investors hunted for bargains in Belgium. Madrid, meanwhile, was closed for a bank holiday, *writes Our Markets Staff.*

STOCKHOLM was not excited by a lower than expected inflation figure for April and closed lower on profit-taking. "After such a strong rise it is not surprising that we should have a weaker day. There is a reluctance to push the market further," one analyst said. The Affärsvärlden general index fell 3.5 to 1,220.5 on lower turnover of SKr297m.

Ericsson, which has spearheaded the recent rally, saw its free B shares fall SKr23 to SKr1,058 while Astra, due to present its first quarter results today, lost SKr8 to SKr473. Nobel Industrier shares were steady at SKr184 after its subsidiary, Pharos, said that it would issue new shares worth SKr1bn to buy Spectra Physics of the US from Ciba-Geigy.

OSLO succumbed to profit-taking, with the all-share index falling 5.88 to 641.29 on turnover of NKr407m. Norsk Hydro was down NKr4 to NKr203.5.

FRANKFURT saw Daimler drop DM14 to DM832 on a 12 per cent drop in 1989 earnings per share while Deutsche Bank rose DM2.50 to DM782 in anticipation of good news from its shareholders' meeting today.

Dresdner added DM4.50 to DM430, in spite of another rise in the Bundesbank's average bond yield, from 8.86 to 8.92 per cent for a rise of 13 basis points since the unseating of the CDU in Lower Saxony.

However, says Mr Werner Wanke, head of securities at B. Metzler in Frankfurt, the word is that banking margins are unchanged to slightly better this year; he also feels that the bond market is actually holding quite well against negative recommendations from the UK, France and the US.

Generally, share prices closed above their lows, the DAX index easing 9.08 points to 1851.25, after a fall of 5.20 to 781.59 in the FAZ at midsession. Volume rose to DM8.3bn from DM6.3bn.

Retailing stocks were sharply higher, helped by buy recommendations from British analysts. Horten jumped DM14 to DM282 while Karstadt and Kaufhof each climbed DM8 to DM686 and DM578 respectively.

ZURICH followed Frankfurt again, the Crédit Suisse index dipping another 4.1 to 620.8 on profit-taking after last week's rise of more than 5 per cent.

In banking, Union Bank led the sector lower with a decline of SFr50 to SFr3,890. Insurance shares fell overall, with Swiss Re SFr100 lower at SFr3,160 and, in engineering, Schindler eased a token SFr25 to SFr6,800 in spite of a forecast of better results this year.

PARIS was concerned by a sharp rise in call money rates even though the rise was attributed to tightness in the money market at the end of the official banking month. The CAC 40 index fell 19.47 to 2,070.67, near the day's lows and turnover was around FFr2bn.

Lafarge, the building materials company, was the most actively traded stock following a positive presentation to London fund managers. The stock closed FFr17.90 higher at FFr463.90, with 631,620 shares changing hands. Peugeot, on the other hand, fell FFr25 to FFr843, with 209,600 shares traded. One London broker associated the sell-off with remarks by Renault's chairman that the boom years for the French car market were over and with Daimler's 12 per cent drop in earnings per share for 1989.

Hachette bounced back after its recent losses and closed FFr16 higher at FFr446. Investors were encouraged by news that Hachette was putting Woman's Day, the largest circulation magazine in America, up for sale in a bid to reduce its gearing and concentrate more on niche publications. TF1, the tv station, rose FFr7.20 to FFr337 after reporting a rise in 1989 net profits and saying it wanted its main shareholder, Bouygues, to raise its stake to 33 per cent from 25 per cent.

AMSTERDAM closed slightly firmer in thin volume on the back of Wall Street's gains and on speculation that the Dutch central bank would take advantage of the weak D-Mark to lower its interest rates. The CBS Tendency index was 0.1 higher at 117.9.

Unilever fell 30 cents to Fl 148.30 on profit-taking following its gains of FL 4.70 on Monday. Philips was 10 cents higher at FL 33.50 on news of draconian measures to restore profitability. "There will be a lot more unpleasant news from Philips, not to mention labour relations problems later on," one analyst said, adding that its first half result could be at least as bad as the first quarter.

The road haulier, Frans Maas, fell FL 4 to FL 116.00 after announcing a one-for-eight rights issue to finance the acquisition of a West German company.

MILAN closed higher at the end of the May trading account, with banks and telecommunication stocks rising in particular. Volumes were estimated at around L240bn which, some brokers felt, was not enough to fuel a serious rally in the new account. The Comit index rose 5.84 to 709.76.

Among the blue-chips, Mediobanca rose L750 to L21,600 on foreign buying. Stet jumped L120 to L6,065 while SIP rose L54 to L1,730. A report by James Capel on the Italian telecommunications industry favours Stet as the best all-round investment, given its solid record of growth, its surplus cash flows and the 25 per cent rise in its dividend. Camfin, a manufacturer of gas and oil tubes, jumped 5.3 per cent or L235 to L4,600 as buy orders hit a narrow market.

BRUSSELS was rediscovered by foreign investors. Volume was a strong BFr800m and centred on blue-chips. The cash market index rose 44.39 to 6,166.20. Utilities were bought for their dividends due to be paid next week. Intercom gained BFr25 to BFr3,570 and Ebes rose BFr50 to BFr4,420.

COPENHAGEN saw shares in the pharmaceutical company, Novo Nordisk, jump DKr12 to DKr289 after better than expected first quarter results. But most Danish shares were quietly mixed.

SOUTH AFRICA

JOHANNESBURG fell as the gold price dropped and interest in platinum shares waned. Vaal Reefs fell R13 to R320 and Rustenberg came off highs of R90.75 to close 50 cents lower at 89.50. The overall index lost 18 at 3,182.

ASIA PACIFIC

Profit motive outweighs enthusiasm for the yen

Tokyo

ENTHUSIASM generated by the stronger yen was slightly outweighed yesterday by profit-taking, and renewed concern about the market's rapid rise. Share prices were mixed with the Nikkei index falling slightly lower while the broader Topix index saw a moderate gain, *writes Michiyo Nakamoto in Tokyo.*

The Nikkei rose to a high of 32,323.30 in intraday trading but enthusiasm fizzled out later, taking it below 32,000 to close with a loss of 45.61 at 31,997.04. The low for the day was 31,888.94.

Advances outnumbered declines by 642 to 347 with 139 were unchanged, and turnover rose to 900m shares from 800m on Monday. The Topix index of all listed stocks posted an advance of 8.46 to 2,398.78 and, in London, the ISE/Nikkei 50 index rose 0.87 to 1,788.53.

Fear of overheating and an urge to take profits balanced optimism stemming from the rise in the yen and an improved, but still slightly suspect bond market. While domestic interest rates have been coming down, there was widespread agreement that the Bank of Japan would keep a tight grip on monetary policy, said Mr Charles Lambert at Jardine Fleming. The yen's rise against the dollar was encouraging, but there was still some doubt whether it could maintain its recent strength.

The longer-term outlook for the market was still bright for many analysts. The Nikkei has safely passed the 31,640 level, which represents a recovery of one-third of its loss from last year's high. The next immediate target for the market is to recover half of its loss, which would take it to 33,459.

The yen's advance continued to focus attention on domestic demand. Big steels, heavy industrials and utilities were popular again on the grounds that a stronger yen reduces their total interest rate burden. While Nippon Steel, second in volume with 44.4m shares, closed unchanged at Y829, Nisshin Steel added Y40 to Y995 and Ishikawajima Harima Heavy Industries climbed Y30 to Y1,100.

Daiwa House's announcement of a 43.6 per cent rise in recurring profits, for the term ending March 1990, triggered enthusiasm for housing issues. Daiwa House, which expects recurring profit for the year to 1991 to post an increase of 26 per cent and set a seventh consecutive record high, gained Y100 to Y2,550.

Special situations were also in the limelight. Honsu Paper, which has attracted attention on rumours that a well known speculative group was buying into the issue, gained Y150 to Y2,200. Kurabo Industries, a textile maker, had also risen strongly on news of speculative buying, but after rising Y36 to Y1,036 it closed down Y3 at Y991. Kurabo was third most actively traded with 19.4m shares.

Buying across the board took share prices in Osaka higher for the eighth consecutive trading session. The OSE average closed with a gain of 148.62 at 34,666.38. Volume rose to 79.4m shares from 78.1m traded on Monday.

Roundup

WALL Street's record close failed to have a lasting impact on Pacific Rim markets which were more concerned with matters closer to home.

HONG KONG declined as political worries dampened early gains inspired by Wall Street. The Hang Seng index fell 11.35 to 2,965.09. Turnover was steady at HK$1.19bn.

Possible unrest on the first anniversary of the June 4 killings in Peking and worries that the US Congress might vote to end China's MFN status hung over the market. Rumours that a local newspaper planned to run an open protest letter to Peking's leadership from the former top Chinese representative in Hong Kong, Xu Jiatum, who is now in the US, also unnerved investors.

Jardine Matheson, which announced last week that it would list its shares in London and Luxembourg, rose 50 cents to HK$29.70.

NEW ZEALAND was inspired at the start but came off on profit-taking. The Barclays index closed 6.13 higher at 1,754.75 against an intraday high of 1,763.00. Turnover jumped to 40.7m shares or NZ$31.1m from 12.8m or NZ$21.5m, inflated by 26m shares traded in Restech, the small resources concern.

AUSTRALIA retreated after Monday's rally as profit-taking set in and a stronger domestic dollar hit resources stocks. The All Ordinaries closed down 9.4 at 1,507.8, near the day's low. Turnover fell to 82m shares or A$203m from Monday's high level of 103m shares or A$355m.

SEOUL extended its losses to 10.4 per cent oversix consecutive sessions as workers at Hyundai Motor, the country's largest car manufacturer, went on indefinite strike. The composite index lost 9.66 to 724.76.

TAIWAN rebounded after five sessions of losses, the weighted index recovering 294.53 to 8,569.55. SINGAPORE eased on profit-taking after seven days of gains, the Straits Times industrial index closing 5.21 lower at 1,530.86.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	MONDAY MAY 14 1990						FRIDAY MAY 11 1990			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Day's change % local currency	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1990 High	1990 Low	Year ago (approx)
Australia (81)	136.20	+2.6	120.09	118.63	+2.3	5.85	132.78	117.07	115.91	158.31	125.85	139.55
Austria (19)	257.79	−0.6	227.30	220.43	+0.3	1.22	259.22	228.56	219.79	285.63	193.15	121.03
Belgium (61)	152.12	+0.0	134.13	127.74	+0.8	4.53	152.10	134.11	126.78	160.02	132.11	130.80
Canada (120)	136.61	+0.3	120.45	116.38	+0.1	3.44	136.19	120.08	116.22	153.61	130.37	137.08
Denmark (34)	249.67	−0.3	220.14	212.91	+0.2	1.56	250.35	220.73	212.58	260.82	236.69	178.27
Finland (26)	136.26	+1.6	120.16	111.38	+1.8	2.46	134.16	118.29	109.43	152.29	129.99	150.33
France (125)	167.19	−0.7	147.42	145.36	−0.2	2.82	168.38	148.46	145.60	166.66	141.69	116.55
West Germany (93)	133.90	−2.3	118.06	114.48	−1.5	1.94	137.04	120.83	116.16	137.71	122.05	82.48
Hong Kong (48)	123.68	+0.5	109.05	123.69	+0.5	5.03	123.07	108.52	123.09	126.90	112.24	140.33
Ireland (17)	181.05	+0.1	159.64	156.61	+0.8	2.80	180.82	159.43	155.31	198.57	172.72	143.72
Italy (96)	103.21	−0.1	91.00	93.22	+0.4	2.54	103.28	91.06	92.81	103.73	91.85	78.14
Japan (454)	151.75	+1.8	133.80	146.52	+1.8	0.56	149.12	131.49	143.89	197.26	124.40	164.87
Malaysia (35)	224.46	+2.0	197.91	232.89	+2.0	2.31	220.04	194.01	226.30	245.32	204.15	183.44
Mexico (13)	452.13	+2.0	398.65	1398.48	+2.3	0.37	443.06	390.65	1367.26	452.13	324.53	183.28
Netherland (43)	142.03	+1.2	125.23	119.76	+2.0	4.71	140.41	123.80	117.46	145.66	130.43	115.34
New Zealand (17)	62.80	+2.0	55.37	58.39	+2.2	7.52	61.56	54.28	57.11	75.36	59.57	71.12
Norway (23)	245.41	+0.5	216.38	212.94	+0.7	1.46	244.23	215.34	211.50	245.90	202.34	182.22
Singapore (25)	199.67	+1.5	176.05	170.18	+1.5	1.93	196.71	173.45	167.71	199.67	179.70	158.64
South Africa (60)	192.42	+1.0	169.66	165.27	+0.6	3.58	190.47	167.94	164.23	251.39	173.80	137.43
Spain (42)	163.50	+0.8	144.16	127.77	+1.2	4.16	162.16	142.97	126.22	165.19	132.84	150.82
Sweden (35)	203.91	+1.0	179.79	181.34	+1.1	2.22	201.82	178.03	179.35	206.95	173.89	155.41
Switzerland (66)	101.40	−0.6	89.41	87.73	−0.6	2.36	102.05	89.98	88.26	102.05	88.75	70.93
United Kingdom (306)	150.39	+1.6	132.60	132.60	+1.6	5.00	148.09	130.57	130.57	164.31	139.87	146.08
USA (537)	143.28	+0.8	126.33	143.28	+0.8	3.40	142.18	125.36	142.18	145.40	130.61	128.73
Europe (986)	144.27	+0.1	127.20	124.51	+0.5	3.60	144.08	127.03	123.88	146.66	135.57	117.18
Nordic (118)	199.24	+0.5	175.67	166.77	+0.8	1.88	198.31	174.85	165.51	201.89	185.01	152.46
Pacific Basin (660)	150.12	+1.8	132.37	144.45	+1.8	0.87	147.52	130.07	141.87	192.75	124.63	161.03
Euro−Pacific (1646)	148.14	+1.1	130.62	136.79	+1.3	1.95	146.51	129.18	135.08	174.18	130.35	155.51
North America (657)	142.78	+0.7	125.89	141.50	+0.7	3.40	141.72	124.96	140.47	145.78	131.02	129.14
Europe Ex. UK (680)	138.54	−0.7	122.15	119.00	−0.1	2.77	139.50	123.00	119.12	139.50	124.81	99.31
Pacific Ex. Japan (206)	129.99	+1.8	114.62	117.60	+1.7	5.17	127.73	112.63	115.68	139.32	122.53	134.84
World Ex. US (1839)	148.36	+1.1	130.81	136.72	+1.3	2.01	146.76	129.40	135.09	173.77	131.30	154.70
World Ex. UK (2070)	144.97	+0.9	127.82	139.46	+1.0	2.23	143.64	126.65	138.02	162.00	130.80	144.22
World Ex. So. Af. (2316)	145.15	+1.0	127.98	138.57	+1.1	2.48	143.73	126.73	137.07	161.84	131.95	144.42
World Ex. Japan (1922)	143.60	+0.6	126.61	134.96	+0.7	3.55	142.81	125.91	134.05	145.52	134.62	125.06
The World Index (2376)	145.43	+1.0	128.23	138.76	+1.1	2.49	144.02	126.98	137.26	162.05	132.25	144.37

Constituent change 15/5/90: Deletion: London & Edinburgh Trust (UK). Latest prices were unavailable for this edition.

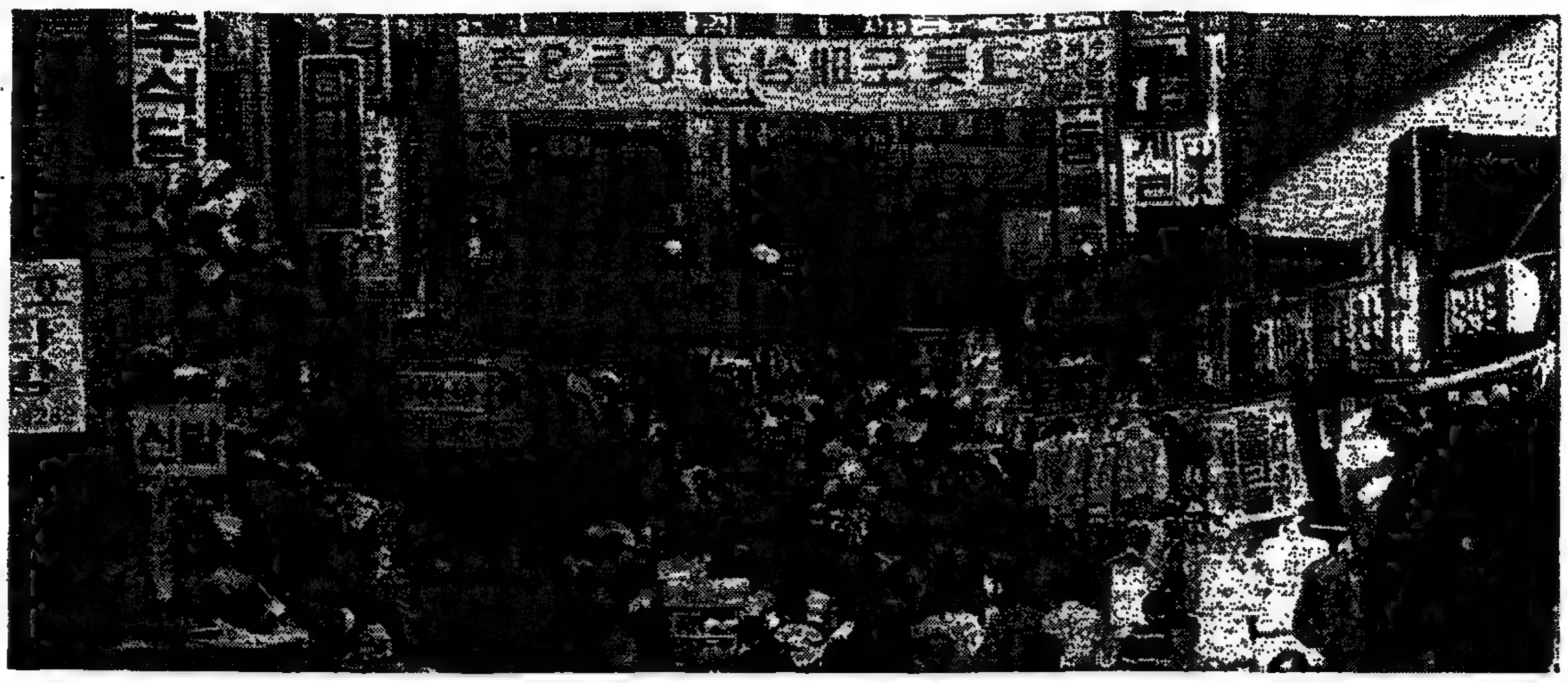
FINANCIAL TIMES SURVEY

SOUTH KOREA

May 16 1990

The confidence flowing from the economic growth and introduction of democracy in South Korea in the 1980s has given way to uncertainty and nervousness. **John Ridding** writes on what is needed to achieve a smooth transition to the next stage of development

South Korea's morning after



South Koreans have never had such a variety of goods and so much money to spend

IN THIS SURVEY

Editorial production: Heather Parker

A DECADE ago South Korea entered the 1980s with its economy on the floor; a year ago the country was preening as one of the world's most successful economies which had also managed to replace dictatorship with democracy and stage the Olympic Games to boot. South Korea now enters the new decade weighed down with self-doubt, and struggling to fulfil expectations raised by the remarkable developments of the 1980s.

A near halving in the economic growth rate last year, faltering exports and the emergence of conflicting demands unleashed by political freedom have prompted an erosion of confidence after successive years of double digit GNP rises and the rapid transition to democracy.

Industrialists and businessmen talk darkly of economic crisis, pointing to the stalling export drive and the sharp fall in the stock market. The middle and working classes complain about soaring land and rental costs and the increase in crime, while concerns about political stability have prompted a fundamental restructuring in the party political system.

However, Korea's concerns must be put into perspective. Forecast growth this year of 7 per cent will be one of the highest in the world and a reduction in the contribution of exports is a natural development in a maturing economy. The flipside of this trend – the strong increase in domestic demand – reflects the rewards of years of sacrifice and a consumer boom prompted by Koreans' new found affluence.

Politically, the difficulties Korea is experiencing in developing the institutions through which to implement its new found democracy pale beside the achievements made since the first free elections in 1987.

Furthermore, much of the gloom is not to be taken at face value. Pessimistic forecasts have been issued with one eye firmly fixed on the trade unions in an attempt to gain a respite from three years of industrial unrest.

None the less, many of the problems in the economic, social and political spheres cannot be lightly dismissed. In all three areas there are difficult adjustments, often structural, which must be made if Korea is to continue its record of impressive development.

On the economic front there is the sobering realisation that the 12 per cent growth rate notched up in 1986, 1987 and 1988 was the result of a special set of factors – low wages, favourable exchange rates and strong demand in its principal markets. All three have now been reversed, prompting a fall in exports, the traditional engine of the economy, and leaving policy makers and industrialists wondering where Korea's comparative advantage now lies.

The Government's response has been to revert to tried and trusted measures. A new cabinet economics team was installed in March, heralding a return to growth and export-oriented polices at the expense of emphasis on a more equitable distribution of Korea's wealth. Credit constraints on the chaebol, the large conglomerates which dominate the economy, have been eased, export financing has been expanded, and the exchange rate has slipped by about 4 per cent against the dollar – albeit of its own accord.

Such measures, however, represent at best a short-term fix. The emergence of low-cost competition from south east Asia means South Korea will never again be the cheapest producer, and attempts to buck the underlying economic trends may exacerbate rising inflation and send the wrong signals to industry.

The real answer to Korea's economic challenges lies in a combination of improved efficiency, better technology and the production of more capital-intensive and higher quality goods. All require a long term view on the part of industry, a change in management attitudes among many of the large companies and, above all, investment.

See back page for map, key facts and economic indicators

Industry has begun to respond and many of the chaebol flagship companies have registered impressive gains in technology development and productivity. Overseas operations have mushroomed in an attempt to source and produce at lower cost and to avoid the growing threat of protectionism in Korea's principal markets.

The need for rapid adjustment is nothing new to South Korea. Entering the 1980s, the problems it faced were much more daunting. Inflation stood at more than 20 per cent, successive oil shocks added to a yawning trade deficit and the country laboured under a large and growing external debt.

The difference between then and now now lies in the political system and the expression of pluralistic and often competing demands. "Many of the difficulties are the price of democracy," said one political observer. "The Government no longer has the tight control of society and the economy enjoyed by previous authoritarian regimes, and has to accommodate a much broader range of demands."

However, there are clear signs of growing conservativism. Public opinion has shifted away from the populism which prompted the explosion of conflicting interests following the introduction of democracy, and dissident groups have lost much of their support. Trade unions have generally adopted a more conciliatory stance in the current spring wage round, although the Government's crackdown on industrial disputes – most evident in the storming of a strike at the nation's largest shipyard last month – raises the prospect of a backlash.

To retain support the Government needs to address a number of of difficult social issues. One of the most pressing is the sharp escalation in property prices, which has raised the prospect of homelessness for many. A series of suicides prompted by the issue bear testimony to its gravity.

More generally, the widening disparity in the distribution of wealth, partly the result of skewed land ownership patterns, represents an increasingly sensitive issue in South Korea's egalitarian society.

The problem the Government faces in addressing these issues is that the political system itself is still evolving. The merger of the ruling party and two of the three opposition parties into the Democratic Liberal Party removed the uncertainty inherent in a four-party, opposition dominated, national assembly.

However, the new body has yet to prove its unity, and the emergence of factionalism following by-election setbacks has raised a question mark over its stability.

Partly because of this flux in political institutions, there has been an inconsistency in policy formulation and implementation. There is a broad feeling that the Government lacks clear direction.

None the less, the first half of President Roh's term has seen a number of substantial achievements. The bitter legacy of the previous administration has been resolved, and the creation of the new party provides the basis for more consistent and effective policies.

Achievements have also been made in the international sphere. Arguably most successful has been Nordpolitik – the establishment of relations with socialist countries in an attempt to reduce tensions on the Korean peninsula and to establish trade and economic links.

Every month seems to bring news of extended diplomatic ties, and although relations with North Korea remain as tense as ever, trade and investment flows with Eastern Europe have flourished.

Progress has also been made with Korea's traditional allies. Trade friction with the US has eased substantially since 1987 and 1988 as the bilateral current account imbalance has been brought under control. Delicate issues such as beef imports and access to the Korean telecommunications market have been defused, at least for the time being.

On the security front, agreement has been reached on a gradual and partial reduction of US forces stationed on the peninsula.

A number of difficulties remain. Continued depreciation of the won is likely to fan enduring congressional concerns about Korean trade practices, and the US will closely monitor whether Korea adheres to its timetable for capital market liberalisation. At the same time, the political importance of domestic interest groups will limit the Korean Government's room for manoeuvre.

In international issues, however, just as with domestic challenges, South Korea has shown the ability to adjust. In spite of its current difficulties, its record suggests the country will emerge stronger from its period of restructuring.

John Ridding on Seoul's new-look politics

In search of a stable system

President Roh Tae Woo, centre, with Kim Jong Pil, left, leader of the former NDRP, and Kim Young Sam, leader of the former RDP on the occasion of the merger of these two opposition parties with the ruling DJP, to form the new DLP

SINCE President Roh Tae Woo's dramatic announcement of free elections in 1987, the only constant in South Korean politics has been the unexpected.

This year, the surprise took the form of a merger between the ruling Democratic Justice Party and two of the three opposition parties. At a stroke, President Roh transformed an opposition-dominated national assembly into one led by a new conservative party with a two-thirds majority.

Notwithstanding the boldness of the step and the confrontational nature of Korean politics over recent years, the public response to the creation of the new Democratic Liberal Party was relatively muted.

Rallies organised by the Party for Peace and Democracy, the sole remaining opposition party, failed to draw mass support. Most Koreans appeared to accept the Government's cited motive of greater political stability.

But in its first electoral test, last month, Korean voters issued a surprise. By-election candidates of the ruling DLP suffered setbacks in previously solid districts, and a fledgling opposition group registered an impressive debut.

Advocates of the merger argue that it was needed to provide a broad and strong political base from which to tackle problems ranging from a slowing economy to soaring land and rental prices.

"The four-party system in which the Government was in a minority could not exercise the leadership to cope with the rapidly changing environment," said Mr Kim Yong Hwan, chief policy maker of the DLP. At the same time he sees the new party structure as the first step in addressing two of the principal problems in Korean politics – regionalism, and the predominance of factionalism over policy.

"The three parties are of the same colour in political ideas but have been divided by regional loyalties and leaderships," he said, adding that by combining the various parties, which draw support from distinct geographical areas, the importance of regionalism will decline in favour of a two-party policy-oriented system.

For critics, however, the merger represents the manoeuvrings of power politics: "The opposition parties had no mandate for such a move," said one opponent of the merger. "It just reflects the personal political ambitions of the party leaders."

A more stable party political system is also proving elusive. The by-election defeats prompted the eruption of latent factional divisions within the DLP and a bitter struggle for influence between Mr Park Chul Un, President Roh Tae Woo's protégé, and Mr Kim Young Sam, leader of the former Reunification Democratic Party, the larger of the two opposition parties in the merger.

Mr Park has now resigned, but the new party has still to prove its unity, and the underlying problem of factional rivalry remains. Defections from the DLP cannot be ruled out, and they would bolster the ranks of the opposition parties. However, most expect the DLP can retain its parliamentary majority at least until the next national assembly elections.

As such, the creation of the new party represents skilful manoeuvring by President Roh and should resolve the problems inherent in a minority Government. The merger may, however, exacerbate rather than reduce the problems of regionalism. The exclusion of the PPD, for one thing, is likely to heighten the isolation of the Cholla region, from which the party draws its main support.

But for Mr Kim Dae Jung, the leader of the PPD, political success will also be measured by his ability to expand his support into other areas. Local elections that have been promised but delayed provide one means, through the votes of Cholla's emigrants. In addition, the party is considering forming a collective leadership with representatives from outside Cholla province.

But perhaps the main implication of the merger, the subsequent electoral reverses and the emerging disputes within the ruling camp, is that South Korea is still in the process of developing a multi-party democratic system: "South Koreans have succeeded in satisfying their demand for democracy," said one political analyst, "but they are still developing the institutions to put it into practice."

As a result, the political system is still in a state of flux: "It will take a while to assimilate the different groups within the new party," says one observer.

The danger is that the continuing divisions may delay the development and implementation of clear policy goals. Several reform proposals have already been delayed or shelved, including local autonomy elections and reform of the National Security Law.

"There is a feeling that the Government does not have a consistent set of objectives," says one western diplomat: "Ordinary Koreans have not seen enough action on matters which they care about most, such as rent increases and inflation."

None the less, at the half way point of his term, President Roh has made several substantial achievements. The bitter legacy of the previous administration, which dominated parliamentary business for much of 1988 and 1989, has now been effectively resolved. In addition, the Government's policy of Nordpolitik, the establishment of relations with socialist countries, has proved successful.

The merger, and the creation of a large conservative ruling party, also marks a shift in the political consensus: "The current trend is a reaction to the period of populism which developed after June 1987 and in which all the latent interest groups asserted their demands," said Professor Ahn Byung Joon of Yonsei University. But he also argues that there is public support for such a shift.

A similar belief is held by Professor Han Sung Joo of Korea University: "We have been moving in a cyclical way concerning freedom. Recently we have headed in one direction, which has seen an explosion in progressive demands, and now the pendulum is moving back."

Such a trend has prompted some groups to express concern about "creeping authoritarianism." Progressive groups and trade unions have felt themselves under increased pressure and have also found themselves facing reduced public support.

In spite of these concerns there is little dispute that the underlying situation continues to improve: "The pendulum cannot move all the way back," said Professor Han. In just three years the issue has shifted from the introduction of democracy to its effective implementation, and at the beginning of 1987 that could barely have been expected.

DEREGULATION

The more liberal future is a long time coming

FORECASTING the pace of the deregulation of South Korea's financial markets is one of that country's great spectator sports.

Anyone can play, picking from a wide range of contrary evidence to back up one's assessment. The cynic can point to the fact that a government commitment in 1981 to open the stock market to foreign investors in 1987 was not fulfilled, and argue that a similar retreat could happen again. The optimist can base his hopes on the latest government promise to liberalise the market in 1992.

There are three main liberalisation processes going on, one involving the exchange rate, another the securities markets and the third concerning banking practice, especially interest rate deregulation. The three are linked in that it will be difficult to achieve open securities markets if exchange and interest rates remain insulated from international trends, but the processes seem to be going on somewhat independently.

The Korean authorities, long criticised for maintaining the won at an artificially low level, last year began a process of subjecting the exchange rate to market forces by allowing banks to set their own rates for telegraphic transfers within a narrow range.

Then, on March 1 this year, a so-called "market middle rate exchange rate system" was introduced, in which the rate is set each day based on the middle rate prevailing the previous day. Given the overwhelming power of the Bank of Korea in the tiny foreign exchange market – average turnover \$200m – claims by government leaders that they can no longer influence the exchange rate are being treated with scepticism at home and abroad.

A first step towards banking deregulation came in December, 1988, when ceilings on most lending and deposit rates for instruments with maturities of more than two years were lifted. Many, like Mr Nam Woo Sang, senior fellow at the Korea Development Institute, argue that the effect of these measures has been minimal because, in the absence of total deposit rate liberalisation, banks tend to set loan rates in a cartel-like way.

Mr Lee Ku Jang, director of the bank division in the finance bureau of the Ministry of Finance disagrees. "It is true that banks charge the same rates, but the change gives greater bargaining power to borrowers," he says. Ominously, Mr Lee says there is "no specific timetable" for further liberalisation moves, and the current anxiety about the weakening of the country's economy suggests progress may be rather slower than some people hoped. The lifting

Ominously, there is 'no specific timetable' for further liberalisation moves

of the ceiling on issues of certificates of deposit, one of the items demanded by the US Government, is now being considered, and the trust business will be opened to foreign banks at some point, Mr Lee says. Other money market instruments "will be permitted in the long term."

As for the liberalisation of deposit rates, this will be "very difficult." Banks, which are already suffering from increased competition, might not be able to endure the squeeze on their spreads if this happened quickly.

The prospects for liberalisation of the stock market look brighter. Up to now, foreign investors have been prohibited from investing directly in the Korea Stock Market, mainly because of the authorities' fear that a flood of inward portfolio investment would play havoc with the money supply. Increasingly strident demands from foreigners to be allowed to participate in the market have been met by the creation of a number of investment trusts for foreigners.

Also, a growing number of Korean companies have been allowed to issue convertible bonds overseas, with the implication that at a later date, foreigners will become direct holders of equities.

According to the securities policy division in the Ministry of Finance, the resort to indirect investment vehicles for foreigners will continue through the rest of this year and next year, and will probably be expanded later this year by the issue of so-called matching funds. The plan is that the three investment trust operators will set up funds that will consist of both foreign and Korean securities and be offered to both Korean and foreign investors in relatively balanced amounts.

The pace of approvals for overseas issues is speeding up now that the stock market is somewhat depressed and worries about excessive demand are fading. Up to the end of last year, only seven overseas corporate convertible bond issues had been approved; this year there could be 10 or 12 securities industry leaders say.

The pressure to permit direct investment cannot be held up indefinitely. Early this year, the first of the corporate convertible bonds, an issue from Samsung Electronics in 1985 whose intended conversion in 1987 was blocked by the government, was finally converted, putting shares of a Korean company in foreign hands for the first time. Foreign holders are, of course, free to sell the shares like any other investor and can use the proceeds to buy other shares.

The pace of approvals for issues is speeding up now the stock market is depressed

This is almost certainly the pattern that will be followed in liberalising the market as a whole. Direct investment would only be allowed at a limited level at first, and would be gradually raised, taking into account the state of interest rates, foreign exchange rates and the general readiness of the economy for "internationalisation."

Securities industry leaders believe the MoF will put a number of special restraints on foreign investors, such as forcing them to use their real names. Earlier this year the government backed away from a plan to force Korean investors to use their real names, but industry leaders say the same inconsistency exists in Japan and causes no problems.

Foreign investors may also be obliged to leave their capital with a securities company in a low interest deposit account if they liquidate their equity holdings. Also, the current ceiling of 3 per cent holdings by any one foreigner will probably be maintained, as will the limit of 15 per cent on aggregate holdings by foreigners of a single company.

Some companies, of course, which are considered of strategic significance, such as Korea Electric Power and Pohang Iron and Steel, will remain off limits to foreign investors.

Moreover, as Mr Yang Cheol Ho, managing director of Dongsuh Securities points out, the government has not committed itself to opening the bond and money markets to foreigners.

The other leg of stock market liberalisation concerns allowing foreign securities companies to have branch offices (with the right to deal directly with clients) and to gain membership on the Korea Stock Exchange. At the moment, 24 securities companies from six countries have representative offices in Korea. The Government could start to allow foreign securities to set up branch offices next year, but only "a few at a time."

Mr Jinho Chung, chief representative of Prudential-Bache Capital Funding in Seoul, expects that two companies from each of the six countries will be invited initially to apply for branch status. He expects trading capital requirements to be set quite high, and that brokers' activities may be limited.

Stock Exchange membership seems further away, three or four years, says Mr Chung – "and we will be probably have to pay a big premium."

Ian Rodger

The propaganda surrounding the decline in growth rate could backfire, writes **Robin Pauley**

When the molehill really becomes a mountain

ECONOMIC growth of nearly 7 per cent a year would have most Government leaders racing to the television studios to proclaim a success rarely equalled anywhere else. In South Korea, such economic performance has resulted in the most important economic ministers being sacked amid an air of national despondency and crisis.

Even by Korean lights, this is an extraordinary state of affairs. But it is all part of a complicated piece of theatrical propaganda and, like the traditional Korean mask theatre, it is difficult for outsiders to comprehend.

Many non-economic ministers, prodded by big business, have spent most of the past year persuading South Korea's 40m people that they are indeed in the throes of an economic crisis.

This strategy has achieved the key objectives for the conservatives in Government and in big business: unions' wage demands are moderating, strikes are down, liberal economic policies and attempts to redistribute wealth and income more equitably are out. The over-indulged leaders of the country's leading conglomerates have succeeded in using the so-called crisis to force the Government to abandon radical reform, including the use of real names in financial transactions, and to make more concessions to business in order to revive their export fortunes.

The economy is now likely to appear to be back on track very quickly. Talk of crisis will evaporate. Much, however, will have been lost during this charade, including some reforming economic ministers, gone before they had a chance to prove their liberalising policies.

The problem is that South Korea has become too accustomed to prosperity born of the three lucky lows during the 1980s – the low value of the currency, low international oil prices, and low world interest rates. This helped to produce average growth rates of 12.6 per cent a year and average growth in export volumes of 16.5 per cent a year in the years 1986 to 1988 – growth (and Korean self esteem) receiving a large, extra anti-cyclical boost in 1988 through the enormously successful Seoul Olympic Games.

Per capita GNP almost doubled from US$2,194 in 1986 to $4,040 in 1988, giving Korea middle-income country status. From 1986 the country's endemic deficits turned into substantial current account surpluses.

Korea is accustomed to prosperity born of the three lucky lows of the 1980s

South Koreans got used to their country being at the head of the world economic growth league, and they were unprepared for changing economic circumstances and the cyclical downturns.

Growth and exports decelerated rapidly during 1989. GNP growth was 6.7 per cent, half the rate of the previous three years, and is likely to be about the same in 1990. This growth rate is sensitive because 50 per cent of the population is aged under 30, and 500,000 new workers enter the labour market every year, so officials estimate that growth of around 7 per cent a year is needed just to maintain equilibrium (although no explanation of this calculation is ever forthcoming).

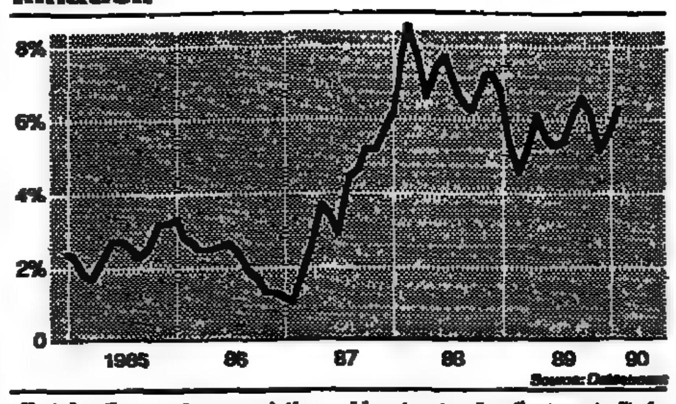
Exports grew by only 3 per cent in 1989 compared with 28 per cent in 1988 in dollar terms, and they shrank by 7 per cent compared with 15 per cent growth in 1988 in volume terms.

The current account surplus fell from $14.2bn or 8.4 per cent of GNP in 1988 to $5.5bn or 2 per cent of GNP in 1989.

Many analysts agree with the assessment of Professor Young Soo Gil at the Korea Development Institute who says the slowdown was the result of two factors in addition to the normal cycles: a wages explosion of more than 20 per cent a year since late 1987, and the rapid appreciation of the won against the US dollar – by a full 16 per cent in 1988 alone.

The won appreciated again in 1989 in spite of the large dollar appreciation against the Japanese yen, but has started to depreciate against the dollar during 1990, a gain which has been more than offset by the won's appreciation against the yen.

Inflation



Calculating productivity gains, wage increases and the currency effect together, South Korea's unit labour costs in manufacturing increased by 43 per cent between mid 1988 and mid 1989. Since 1987 these costs have increased faster in Korea than in any other Asian economy.

But does this constitute a crisis of a magnitude necessitating the abandonment of liberal and liberalising economic policies, the sacking of ministers and a return to export-subsidy economic management?

The consensus seems to be: "No."

Mr Thae Khwarg of Barings for example, says: "The economy is simply going through an inevitable structural adjustment. It is true the problems are worse because large-scale industry, frightened off by massive labour disruption, has not been investing enough and they have not adjusted to the change of the three lows into the three highs.

Taiwanese and Japanese companies in this situation responded much faster at different times, moving off-shore more quickly, cutting out all fat, increasing productivity and competitiveness."

The Government's new economic approach, including sacking ministers, would not help, he says. Acceding to pressure from the chaebol could only worsen labour-management relations which were in desperate need of improvement.

There are clearly some very real difficulties within the Korean economy, but some seem less likely to be tackled by the new economic team than its predecessors. The main need is to upgrade Korean industry towards higher value-added, top-of-the-range goods and away from production of the sort of low valued-added goods which previously gained their competitive advantage from large scale production by cheap labour.

It cannot be achieved without higher investment in technology and research, innovative changes to existing technology and management, and a more co-operative rather than confrontational relationship between management and workers.

Those operations which must remain labour-intensive need to relocate in cheaper labour areas of south east Asia, and possibly south Asia. Competitor nations like Japan and Taiwan have been faster at this transfer, establishing themselves long before the South Koreans.

There has also been a dangerous build-up of inflationary pressures and as the Korean economy matures and becomes more complex, the lags get longer.

The Government unofficially estimates inflation as measured by the consumer price index to be rising at around 3 per cent a quarter, an annualised rate of 12 per cent. Many observers estimate the real current quarterly rise to be even more destructive at between 4 and 5 per cent.

An important factor has been a large and speculative rise in land values (up 33 per cent in 1989), property prices and rents (both up 15 per cent in 1989), all of which are still rising rapidly to the advantage of the wealthier and the fury of the workers and "salarymen."

Ironically, the halt of the won's appreciation, so desired by business to help exports, will also fuel inflation as dollar-denominated imports become more expensive, an unhelpful trend for the current account.

An important area where economic policy seems unlikely to change is the gradual opening of the Korean market. Virtually all industrial products are now exempt from import restrictions; agricultural products remain heavily restricted but last year the Government decided to liberalise many by 1991 and the target of 1997 for the removal of all remaining agricultrual import barriers is unchanged.

Inflation is unofficially estimated to be rising at around 3 per cent a quarter

The average level of tariffs, an important remaining import barrier, fell from 24 per cent in 1983 to 18 per cent in 1988 and 11 per cent this year. By 1993 this should be down to 8 per cent, comparable to many developed industrial economies.

About 80 per cent of all production sectors, including 98 per cent of manufacturing, are now technically open to foreign direct investment. Areas which are prohibited include public utilities, state monopolies and the mass media.

In summary, the South Korean economy was one of the star performers of the 1980s and last year started to experience a sharper than desirable downturn, partly cyclical, for which it was wholly unprepared.

It was not derailed, however, and is not in crisis in any normal sense of the word although important and difficult structural adjustments are needed to avoid a real crisis.

Korea's real economic problem, exemplified by the crisis propaganda, the policy U-turn and the sacking of economic ministers, is its dangerous drift towards taking a short-term approach. As Mr Khwarg says: "What is missing in Korea and in the Korean mentality is patience. Enterprise takes only a short-term view of what is essentially a long-term problem. Rushing an economic team out of office shows simple impatience.

"Any team needs two years to work out its ideas and implement them. The last team was undermined by the chaebol before they had a chance. There is a dangerous camp of quick-fixers in the new team as well as the conservatives. Korea has great potential but this is not the best way to realise it."

PRIVATISATION

The landmark year that wasn't

THIS WAS supposed to be a landmark year for Korea Exchange Bank (KEB), which is, along with the Korea Development Bank (KDB), Korea's best known bank overseas.

At the end of last year, a law turning the Government-owned bank into a joint stock company was promulgated. The bank's leaders looked forward to an early sell-off of shares by the Bank of Korea and Ministry of Finance, which hold 97.5 per cent and 2.5 per cent of KEB's equity.

For the moment, however, the deep slump in the Korean stock market has put paid to that idea: "In these circumstances, it would be very difficult to sell shares," says Whang Ki Chang, the new KEB chairman: "We hope that some time in the second half, stock market conditions will improve and that they will be able to sell."

For Mr Whang, when the privatisation finally occurs, there will be additional personal satisfaction: "I am the father of this bank," he says with a smile, referring to its beginnings in the 1950s as the foreign department of the Bank of Korea. At the time, he managed the foreign department in the central bank, although he had left for the private sector by the time the department was set up as the KEB in 1967.

The bank's main role for the next decade was to continue to operate as Korea's main foreign exchange bank, raising capital in international markets for the country's industrialisation and providing trade finance for its manufacturers. This is still an important portion of the bank's business, with export related transactions totalling $10.4bn last year and import transactions $7.9bn.

By the mid 1970s, Korea's commercial banks were beginning to become interested in international transactions, and competition in this area was became increasingly severe. KEB responded by developing its own domestic business.

It has done so with remarkable speed, and now has 187 branches around the country, almost as many as the big commercial banks, which have between 210 and 230 each.

Last year, KEB's deposits from retail customers averaged won 912.3bn, while loans to individual customers amounted to only won 154.7bn of won 5,216bn in total loans.

KEB has expanded in other ways. Overseas subsidiaries have been set up to enable the bank to tiptoe into investment banking, an area still not open to banks in the domestic market because of legislation requiring the separation of banking and securities business.

The deep slump in the stock market has put paid to the anticipated sell-off of shares by the Bank of Korea and Ministry of Finance

Last year, KEB International, its UK subsidiary, participated in underwriting 63 Eurobond issues.

At home, its Korea International Merchant Bank (KIMB) affiliate, established in 1979, celebrated its tenth anniversary last year by raising won 6.5bn in new capital by floating its shares on the Korea Stock Exchange.

KEB still holds 30.2 per cent of KIMB, with Commerzbank of West Germany having 20.9 per cent, Hong Kong and Shanghai Banking Corp 14 per cent, and the Korea Development Bank 3.5 per cent. The public holds 30.2 per cent.

In 1987, in anticipation of privatisation, KEB set up a credit card subsidiary, KEB Credit Services, which has taken over KEB's Visa card franchise in Korea, and last year it established KEB Leasing to tap South Korea's leasing market.

KEB's assets stood at won 18,600bn at the end of 1989 with total capital of won 697.5bn. Mr Whang says the bank's capital ratio is just over 6 per cent without including any contribution from surpluses on long-held tradeable assets – so it is probably close to, if not at, the Bank for International Settlement's guideline of 8 per cent.

However, he notes that the commercial banks increased their capital through large rights issues in the past year or so, and he wants to do the same: "If the capital base of this bank increases, we will be more competitive. This bank has not been able to increase its capital base because it was Government-owned. That is the main reason for privatisation," he says.

Mr Whang says his own priority, while chairman of the bank, will be to develop the retail market: "I plan to emphasise the retail side to mobilise resources. In order to increase our sources of funds, we have to penetrate into small households."

To some extent, this may be making a virtue out of necessity. As a result of privatisation, the bank has lost its near exclusive right to issue its own debentures, except to roll over the outstanding stock.

The bank also seeks to become the most profitable bank in Korea, aiming to raise net income from won 42.6bn last year to won 150bn by 1993.

That seems rather ambitious, but Mr Whang may be a man in a hurry. According to rumours in Seoul, he is one of the candidates to be the next governor of the central bank.

Ian Rodger

Korea has taken fright at the slowdown in export growth, writes Ian Rodger

Trade protectionist debate resurfaces

TRADE is what Korea is all about. Very few countries, apart perhaps from the big oil exporters, can match Korea when it comes to the importance of exports to gross national product.

Last year, exports of $62.1bn amounted to more than 30 per cent of GNP. And it is the country's extremely rapid export growth in recent years that has enabled it to climb out of the quagmire of excessive debt and slow growth in which it was stuck a decade ago.

Thus, it is not surprising that the Korean authorities have taken fright at the sharp slowdown in export growth in the past year. Last year's exports were only 2.8 per cent up on 1988 in value terms and actually dropped in volume terms. This year, only a slight improvement is expected.

The fall has sparked off a lively debate among Korean economists about whether the country should revert to protectionist policies to revive exports of low and medium value industries or proceed with plans aimed at liberalising the economy and forcing industry to shift to production of higher value, more internationally competitive, goods.

So far this year, it appears the protectionists have been winning the battle. In March, a cabinet shuffle resulted in the appointment of a new team of economic ministers, who last month introduced a package of measures to stimulate exports. Meanwhile, the won fell a further 4 per cent against the dollar in the first quarter after falling 1.7 per cent between April and December last year.

These signs have caused many liberals to fear that the Government is turning back to the policies of the 1970s and early 1980s, when domestic markets were tightly closed to help domestic manufacturers build up their strength. The US, in particular, worries that Korea will drag its feet on commitments made last year in bilateral negotiations to open industrial and financial markets.

Government leaders insist they have no intention of turning back the clock: "There will be no going back at all," said Mr Park Pil Soo, the new Trade and Industry Minister. Mr Park, a former senior trade and industry ministry bureaucrat associated with the aggressive export promotion policies of the 1970s, said Korean companies had to move to higher value added products and invest more in technology.

"We have to import to increase the standard of living of the people," he said. "We need more imports of finished goods as well as raw materials. In order to do this, this ministry should open our markets as intended." There would be no attempt to slow imports through increases in red tape, he promised.

Mr Park argued that the new measures became necessary because the competitiveness of Korean industry had been fading. Companies had been resting on their achievements of the mid-1980s instead of investing in new technology. The high incidence of labour disputes in the past two years had affected both the quality of manufactured goods and Korea's reputation abroad. At the same time, the liberalisation trend had created a perverse anti-performance ethic in some quarters: Some people thought it was more patriotic to import than to produce things, he said.

Whether the assessment of Mr Park and his colleagues is justified remains to be seen. US trade officials scoff at claims that the Korean economy is still fragile, and at suggestions that the US should treat the country less aggressively. However, there is no doubt that the environment, both at home and abroad, has become more severe for Korean traders. When the country began scoring big trade surpluses in the mid 1980s, the US intensified the pressure for market opening measures and a revaluation of the won against the dollar. Korea being a small country and dependent on the US market for 38 per cent of its exports (1987), it had little choice but to respond to this pressure. The dollar fell by a quarter against the won between the end of 1985 and the end of last year and the value of imports roughly doubled from $31.5bn in 1986 to $61.5bn last year.

Meanwhile, the growing wealth of the country was creating increasing unrest among Koreans over inequalities in the distribution of that wealth. Strikes have been widespread in the past two years, causing major disruptions in output. The Korea Labour Institute estimates that won 7,409bn in output was lost in 1988 and 1989 because of labour disputes.

The result is that many industries are in considerably worse shape today than they were three years ago. The car industry is perhaps hardest hit, with exports tumbling 41.7 per cent last year to 335,861 units and little recovery expected this year. Up to now, this loss of export punch has been compensated for by very strong growth in the domestic market (45.8 per cent last year to 763,308 units), but in the future competition in the domestic market is likely to increase as well.

In the increasingly important electronics sector, the story is much the same. Production was up 9.5 per cent last year to $27.5bn but exports rose only 5.4 per cent to $16.6bn. Meanwhile, traditional labour intensive industries, such as textile and apparel, are in structural decline because of competition from developing countries. Exports have been declining since 1987. In the steel industry, imports are expected to exceed exports, as foreign makers, especially of hot coils, find that the stronger won has made their products more competitive.

On the other hand, shipbuilding, which was very hard hit by labour disputes and has lost substantial market share to Japanese yards, is looking up. Export orders were up 230 per cent in the first quarter of this year to 2.36m tonnes, taking the industry's backlog to 7.77m tonnes, 37 per cent higher than in the same period of last year. This is enough to keep the industry busy until well into 1992. Also, the footwear industry continues to thrive, with exports up 29.6 per cent in the first quarter of this year to $848m.

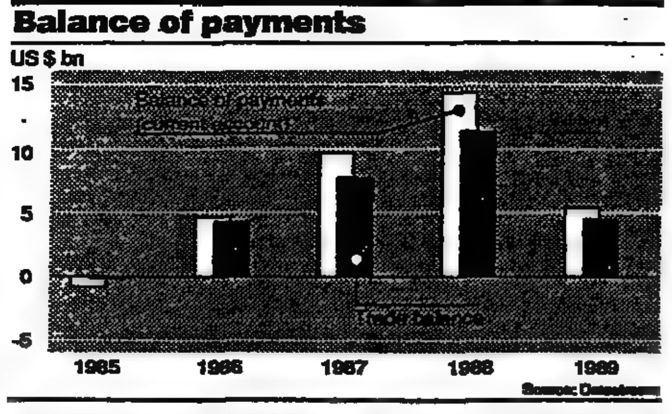
In recent months, the weakening of the Japanese yen against the won has become a fresh worry for the Korean authorities. Korea has long had a huge trade deficit with Japan – $3.99bn last year, up 1.3 per cent from 1988 – and it has been widening this year as the weak yen has made Japanese goods more competitive. Imports of consumer goods are expected to rise 11.7 per cent in the second quarter to $1.8bn, according to the Korea Foreign Trade Association.

The outlook, however, is not totally gloomy. The KFTA is forecasting that exports will grow 5.1 per cent in the second quarter to $1.2bn, after a 1.8 per cent fall in the first quarter, and the Government hopes that its new measures will start to have an impact on other sectors in the second half.

Also, the country's recent efforts to develop trade relations with the Soviet Union – although motivated mainly by the political desire to create a breakthrough in relations with North Korea – could soon start helping the trade figures. Exports to the Soviet Union rose 86 per cent to $208m last year, and are likely to further increase this year.

In March, Hyundai revealed it would share in a $5bn petrochemical project in Siberia, and a few days later, Seoul announced it it would start importing Soviet enriched uranium for its nuclear power reactors.

Balance of payments



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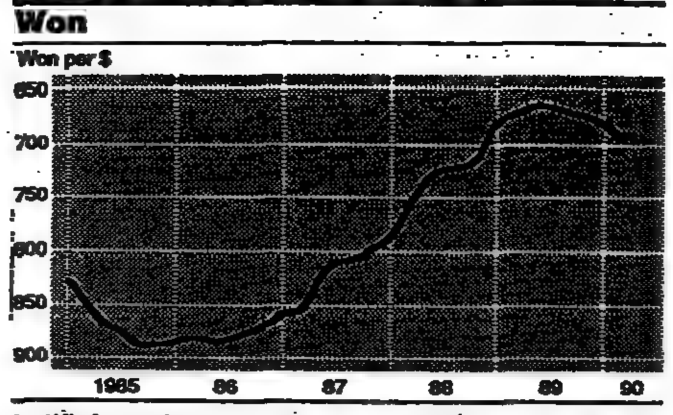

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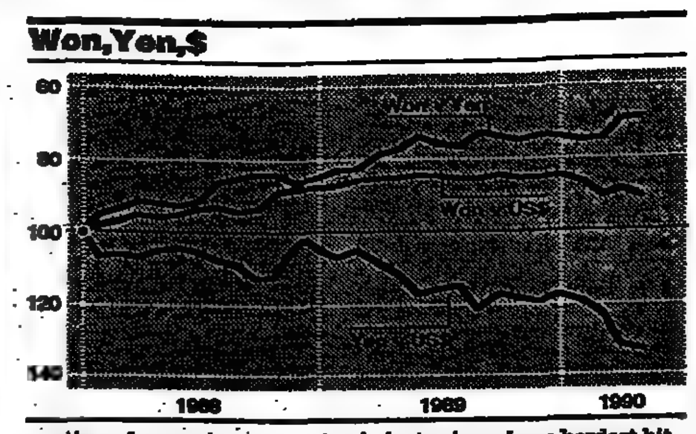


John Ridding analyses the market's decline

Tight times for euromarket

SOUTH KOREAN euromarket instruments, the only means through which foreign investors can gain exposure to Korean equity, have been tumbling from their lofty perches. Since the end of last year, prices and premiums on convertible bonds, the two closed ended funds and investment trusts which are open to foreign investors, have fallen sharply. Samsung Electronics's convertible bonds, the first and benchmark Korean issue, have seen their premium halve since the middle of last year, albeit to a level of about 70 per cent.

The market's decline has resulted from a combination of factors. On one hand, the government's policy of financial liberalisation has prompted an increase in the number of new issues. Whereas only two issues were allowed in the whole of 1989, there were three in the first two months of 1990. Given that scarcity value was perhaps the biggest factor in the astronomical premiums traditionally enjoyed by Korean issuers, a fall in price was to be expected.

At the same time, the approach of the partial stock market opening, scheduled for 1992, also places downward pressure on the issues. "We expect some natural erosion of premiums," says an analyst at a US securities company, "although the limited opening will maintain a scarcity value." Both of these factors have coincided with a slowdown in the growth rate of the Korean economy and a dismal performance by the underlying stock market.

Last year's GNP increase of 6.7 per cent was well down on previous years on the back of a sharp fall in exports, the traditional engine of Korea's economic growth. Reflecting this slowdown, and a series of proposed controversial financial reforms, the underlying stock market has moved sharply downwards this year. At the end of April it recorded its two biggest-ever one day losses, and by the end of the month was more than 20 per cent below its level at the beginning of January.

For the time being, international investors are also finding better value elsewhere. The Malaysian, Thai and Indonesian markets, which are relatively open to foreign investment, have all been offering more attractive returns.

In spite of the downturn in the Korean euromarket, underlying interest in Korean equity remains strong. "The economy may have slowed down," says one analyst at a US securities company, "but most investors are reasonably confident about its prospects and want to have a stake in the larger Korean companies.

"In addition, there is a host of new funds which guarantee a certain level of exposure to the Korean market."

Most observers expect a strong pick-up in the peformance of the underlying stock market as its partial opening in 1992 approaches and this should offset some of the expected downward pressure

Investors are finding better value elsewhere

on euromarket premiums. They also argue that euromarket issues are currently oversold and should start to recover from the second half of the year.

For the moment, however, the relative weakness of CBs and the various funds holds important lessons for Korean companies looking to the Euromarkets to raise funds.

The issue of instruments such as convertible bonds and bonded warrants remains the cheapest means available to Korean companies to raise finance. However, analysts argue that Korean issuers will have to become less aggressive in the terms they demand from foreign investors.

In March, for example, Samsung Electronics was forced to postpone a $75m bond with warrant issue after having completed a series of presentations to international investors. The reason cited for the delay was the deterioration of the Korean euromarket, but observers also pointed to the high premium and low coupon which Samsung was seeking.

"Korean companies attach a lot of status and pride to the terms of their issues," said one analyst with a foreign securities company. "It is a kind of machismo contest in which pricing was becoming unrealistic."

In practice, this means significant portions of the recent issues have ended up with the underwriters. "The issues so far this year have not been placed well with end investors," says Mr Phillip Ham of Schroders, "because the pricing has been so aggressive."

The postponement of the Samsung issue may, however, inject a note of realism. "Samsung Electronics is one of Korea's most highly regarded and well-known companies," said a UK banker. "Smaller and lesser known companies are likely to take note."

There is some evidence that this is beginning to happen. Kolon and Tong Yang, two Korean textiles companies, and Jindo, the fur company, are all reportedly seeking lower premiums and higher coupons for their forthcoming issues.

"The Korean issuers do seem to have realised foreign investors are looking at pricing more carefully," said a securities analyst. "The result should be a resumption of successful issues for the queue of companies waiting to tap the euromarkets."

Creeping complacency about industrial relations has been shattered, writes **Peter Wickenden**

High season for pay talks yet to begin

Workers flee as teargas canisters crack during a street battle near Hyundai, where 2,000 workers clashed with police during the course of the recent strikes

RECENT strikes at the nation's largest shipbuilder and the state-run broadcasting network, and intervention at both by thousands of riot police, have shattered the relative peace of this year's industrial relations environment.

While these two disputes have triggered a series of sympathy strikes, however, many observers are maintaining the view that the severe disruption caused by industrial unrest over the past three years is unlikely to be repeated this year.

One piece of evidence is the failure of a general strike called by Chonnohyop, the radical union group, for May Day. Further support is given by the fact that bad economic news, a government crackdown on union activity and the weight of public opinion combined to cut industrial disputes drastically in the first three months of this year.

However, such optimism is weakened by the fact that the high season for wage bargaining has yet to begin, and that while average wage increases may be much lower this year, the unions are shifting their attention to social and political issues and away from pay increases.

This has certainly been the case in the disputes at Korea Broadcasting System and Hyundai Heavy Industries. In the former, the unions were protesting against the government appointment of the company president, while Hyundai workers were demanding the release of imprisoned union leaders.

There is little evidence that resentment is diminishing

There is also no strong evidence to suggest that workers' resentment about what they regard as years of exploitation prior to democracy is diminishing. Indeed one union leader says the government's failure to dampen speculation on real estate and stocks by large companies has left workers feeling as hard done by as ever.

It would be rash to suppose that the days of widespread industrial strife are already over.

According to the Korea Labour Institute, there were only 321 labour-management disputes up to mid-March, down 74 per cent on the same period last year. The Economic Planning Board estimates that the production losses that resulted were down more than 90 per cent in the first two months.

The Ministry of Labour blames the export slump and inflation partly on labour disputes last year, which led to average wage increases of 20 per cent, the loss of 7m working days and cost $6.5bn (nearly 4 per cent of GNP) in lost production. The Federation of Korean Trades Unions attributes the downturn more to bad economic policies, but both agree a widespread sense of national emergency is now making the unions think twice about walking off the job.

A more immediate deterrent is the government's new pro-management stance, which has landed many, possibly hundreds, of union activists in jail since emergency measures were announced late last year.

"Management says it has surrendered to labour demands too easily since 1987," says Mr Kim Bong Suk, the FKTU's international affairs chief. "To cool the movement we are seeing much more repressive policies."

These include police intervention in disputes that are deemed illegal or violent, the prevention of industry-wide strikes, and a new resolve not to award back-pay after strikes. This "no work, no pay" principle is an attempt to reduce the length of strikes, which has increased over the last three years in spite of a steady fall in the total number.

While these measures seem to have reduced the number of strikes, there is the danger of a union backlash. The strikes called in sympathy with Hyundai and KBS workers, for instance, were a protest against the tough government crackdowns at each.

The government's principal concern, however, is to avoid further damage to the economy from high wage rises and industrial dislocation. Wages in manufacturing industry, where the labour movement has been most active, grew 19.6 per cent in 1988 and 20 per cent last year. As exports dived, however, average negotiated wage increases dropped from 20.1 per cent in June to 13 per cent in November, while productivity increased by only 6.6 per cent for the whole year, according to the KLI.

This year the FKTU is encouraging its members to hold out for a 17 to 20.5 per cent pay rise, while employers' groups are insisting on a maximum of 7 per cent, with a corresponding rise in productivity. The prospects for such a deal look poor, however, since the FKTU based its wage guidelines on its calculations of the minimum cost of living, and finds that average wages in manufacturing industry are still far from adequate.

THE INCIDENCE OF LABOUR DISPUTES

	Number of strikes	Average duration
1987	3,749	5.4 days
1988	1,873	13 days
1989	1,616	18 days

Source: Ministry of Labour

PROGRESSION OF THE WAGES BATTLE

	1988	1989	1990 estimated
FKTU demand increase of	29.3%	26.8%	17.3%
Employers recommend	8%	10.9%	7%
Difference	21.3%	15.9%	10.3%
Actual wage increase	19.6%	20%	12%
Productivity increase	12.4%	6.6%	10%

Source: Korea Labour Institute

Many workers believe employers still owe them a number of benefits such as longer holidays, housing and welfare. "Most unions are not willing to increase productivity. Companies have always enjoyed far too much profit," says Mr Kim.

The KLI is forecasting an average wage rise of 12 per cent with a productivity rise of 10 per cent for 1990.

Realising that housing and welfare will be the main issues in wage negotiations this year, the government has undertaken to build 250,000 flats for workers, of which the first 6,000 were started in March.

It will assist in the *building* of resorts, and of recreational facilities near factories, says Mr Choi Young Choul, Minister of Labour.

In the next two years, the KLI expects the declining competitiveness of labour-intensive industry will bring a rise in unemployment from the current 2.6 per cent to about 3.5 per cent, and that union power will begin to wane. Mr Kim says this is already the case in the textiles industry, where layoffs have been substantial. It is also the reason why Chonnohyop is losing support, he argues.

How quickly South Korea can develop mature industrial relations depends on the willingness of both sides to compromise and learn the rules of the game, says a somewhat pessimistic advisor to the Minister of Labour. Mr Kim concedes there is no longer a "ruler-subject" relationship, and says management (with the continued exception of Samsung, South Korea's largest conglomerate) has come to accept that unions have a useful role.

There are two other indications that the two sides are abandoning extremes and perhaps responding to the Government's appeals that they consider the national interest.

The first is a narrowing gap between the percentage wage hikes recommended by the FKTU, and those suggested by the employers associations. In 1988 the difference was as much as 21 per cent, while this year it is down to 10.3 per cent.

The KLI concedes there is no longer a 'ruler-subject' relationship

In a new move towards conciliation, the FKTU and the Korean Employers Federation decided in April to form a committee including members of the public to discuss wages and welfare.

"Employers do not believe our figures for the cost of living, and we do not believe the government's. This committee might solve the problem," says Mr Kim, adding that it could eventually take on an advisory role, like similar bodies in Western Europe.

In what the KLI calls an epoch-making move, the car industry held this year's wage bargaining at the industrial, rather than individual company level.

Mr Kim believes this practice will spread, increasing union *solidarity* and preventing the yearly wage round from dragging on as one company union tries to top the pay deal accepted by another.

Vanessa Houlder looks at investment in foreign countries

In search of green pastures

THE PACE OF Korean investment abroad is quickening, spurred by fears of protectionism and rising domestic costs. In January and February this year, companies poured twice as much money abroad as in the same months of 1989.

Annual overseas investment has more than quadrupled from the level of five years ago, when it stood at an accumulated total of about $508m. Burdened by the fourth largest debt mountain in the world and committed to exports, Korea then restricted most foreign investment to securing raw materials and setting up sales offices.

But as Korea's trade account swung into the black, these constraints were lifted. At the same time, increasing trade friction and a desire to get closer to its markets pushed manufacturers into setting up production facilities in the US and Europe.

Orientation programmes about Oriental culture are organised for staff

"Instead of just exporting out of Korea, we feel we have to comply with local specifications and we have to contribute to local employment," says Mr John Koo of Goldstar, South Korea's second largest electronics company.

North America has taken the lion's share of Korea's investment, accounting for 43 per cent of the total since 1968. The EC, by contrast, is responsible for a mere 4 per cent, a figure the Koreans would like to see increased: "Korean companies have begun to realise the difficulties in expanding the market in the US and we are trying to sell more in Western Europe," says Dr Jung Sun Suh, of Daewoo Capital Management.

More recently, south east Asia has become the focus of investment: "Korean companies have been sheltering from labour disputes, wage rises and Korean currency appreciation," says Mr Jin Byung Hwa, an official at the Ministry of Finance: "It is a trend that will continue."

For Samsung, Korea's largest company, the benefits of manufacturing in south east Asia have also included local sales opportunities: "First it was labour costs and then the markets were booming," says Mr Lee Hae Jong of Samsung Electronics.

In terms of infrastructure and incentives, Indonesia is considered to be most attractive to Korean investors, followed by Malaysia and Thailand.

The government is encouraging investments in these low-cost countries, particularly for small and medium sized companies engaged in labour-intensive industries such as textiles and footwear which need to cut costs in order to compete. In 1989, almost a third of the number of overseas investment projects approved by the government were put forward by small companies.

Even more recently, a handful of projects has sprung up in Eastern Europe and the USSR. However, Korean companies are hesitating, says Mr Jin. Poor infrastructure, shortages of raw materials, restrictions on remittances of profits and conversion of the Soviet rouble and cultural differences all act as a deterrent.

China also has potential, with its geographical proximity, huge population and low costs. However, Korea lacks diplomatic relations with China.

"We want to go into China slowly," says Mr Jin.

The major companies now have a network of subsidiaries spanning the world. Samsung Electronics has 10 plants abroad, including a factory in Hungary (see accompanying article). Goldstar has joint ventures and plants in the US, Mexico, Germany, UK, Italy, Egypt, Turkey, Thailand, the Philippines and Indonesia.

As the major companies expand overseas, they are having to adapt their management structures. Goldstar has opted for what it describes as "global localisation," whereby the operations in every country have as much autonomy and employ as much local labour as possible. This extends to some research and development which is carried out locally, in an attempt to match individual countries' specifications and consumer preferences.

This has focused attention on the need to get to grips with individual countries' management styles and customs: "Cultural difficulties have not given us any real problems, but to become really globally localised, this is becoming an issue," says Goldstar's Mr Koo. As a result, Goldstar has enlisted university academics to lecture its staff about UK and US culture. Similar orientation programmes about Oriental culture are organised for local staff.

North America has taken the lion's share of Korea's investment — 43 pc since 1968

Language presents another problem: "In marketing and sales we have enough people with good use of English, German and Spanish but not enough engineers in production, R & D and servicing have experience overseas," says Mr Koo. As a result, employees are sent on language courses of up to a year long.

Yet another problem is finding Korean managers prepared to work abroad. Their reluctance is due to factors such as concern about the children's education and an unwillingness to leave the mainstream for a protracted period.

Other commonly cited problems are the high cost of components and manpower. The level of wages in the US caused Samsung and Goldstar to shift their television assembly operations from New Jersey and Alabama to Mexico.

Korean managers also admit to some disappointment concerning how much they can learn from investing in technologically-advanced countries: "One of the reasons Korean companies invested in developed countries was to acquire high technology, but it is very difficult for us, because developed countries protect themselves from technology transfer," says Mr Jin.

With the difficulties of cross-border management, it is not surprising some Korean companies are reviewing their commitment and reassessing their operations abroad. Fears about European protectionism may have been overplayed, according to Dr Jung, of Daewoo Capital Management.

"When we first heard about the unity of Europe, large companies were scared, as they thought it would be a kind of war between Europe and outside Europe. As time goes by, they realise that is not the case," says Dr Jung.

Manufacturers are also having second thoughts about investing in south east Asia, he says: "Productivity is low and there is trouble meeting shipping dates and quality standards." Furthermore, industrialists are becoming more confident about the level of wage settlements this year, he thinks.

If the fears of protectionism and rising domestic costs do indeed prove to be exaggerated, the rate at which money goes overseas may start to slacken. None the less, in 1990 at least, the total seems likely to outstrip that of previous years.

Picture: Glyn Genin

The Hungarian lack of 'working spirit' contrasts strongly with the willingness of these South Korean employees of Samsung, says the vice-president of the Hungary venture, Mr Jaekwan Park

BASE IN EASTERN EUROPE

An old score is settled

"THIRTY years ago, South Korea couldn't be compared to Hungary," says Mr Jaekwan Park, vice-president of the Samsung joint venture in Hungary, as he drives his sparkling Audi past sullen native maintenance workers and the Skodas and Dacias in the factory parking lot.

Thirty years ago, Hungary humiliated South Korea 9-0 in a World Cup soccer match. Only the 1988 Olympics in Seoul finally erased the image of South Korea as a rather backward country which played poor soccer.

Apart from demonstrating how Hungary had been overtaken, the Seoul Games also provided the catalyst for Samsung's joint venture, South Korea's first in Eastern Europe.

A director of Samsung was the chairman of the South Korean wrestling association. It was in this capacity that he first came to Hungary and spotted the potential of the country as an East European base. After the Korean team won two gold medals in wrestling with the help of a Hungarian coach, "he wanted to reward Hungary in some way," according to Mr Park.

The result is Samsung's co-operation with Hungary's Orion to manufacture television sets. Production began in April. The investment is small – Samsung has provided half of the company's $3.3m share capital – but upon its success depends a wave of Korean investment in Hungary.

Samsung began a study into possible investment in Hungary in 1987. The company identified TV sets as the most practical item to manufacture. For a start, they were simpler to make than most of the company's other products. Moreover, there were already three other manufacturers of TVs in Hungary and so the supply of components was less of a problem. Lastly, the company projected strong growth of colour TV sales in Eastern Europe.

Samsung felt it needed a Hungarian partner to help it find its way around in an unfamiliar environment and to protect it at a time when there were still no diplomatic relations between South Korea and Hungary. Orion was a good fit, with strength in consumer electronics and telecommunications which matched those of Samsung.

The investment is small, but much rides on its success

Since the joint venture was registered as a company in December 1989, more than a year after the letter of intent was signed between the two parties, progress has been rapid. Senior engineers and workers trained in South Korea in January and February while equipment was installed in the plant, and mass production began in April, almost on schedule.

At present, the factory assembles components the great majority of which are imported from South Korea: Mr Park admits it is a "screw-driver and adjustment plant." Local content is only 15 per cent and will rise only slowly to a target of 60 per cent, including labour costs. Although the company will export – mainly to Austria – about a third of the 60,000 sets it expects to produce this year, Mr Park estimates it will be five years before the value of the company's exports will outstrip the value of its imports.

He expects the joint venture to make a profit only from next year. Hungarian interest rates of 28 per cent are a considerable burden, but Mr Park stresses the real benefit to Samsung is the experience of investing in Eastern Europe. He describes the company as an "eye-opening joint venture, the first foot in the East bloc countries."

The experience, while educational, has been frustrating. Offices and telephones are the biggest problem, according to Mr Park. The company could not find a Budapest office and eventually had to buy and renovate a former school building. Although that is now complete, the company cannot move in for lack of telephones, which take an eternity to install in Hungary. The factory, 70km outside Budapest, would have had no lines at all did Orion not manufacture microwave communications equipment.

Most of all, Mr Park finds it difficult to come to terms with the "lack of working spirit" in Hungary – the workers, he claims, still abide by the old motto: "Sitting or standing, the salary is the same." Hours are an unvarying 6am to 2pm: public transport is arranged around them and, in any case, workers want to enjoy at least five hours of sunshine.

"We have so many restrictions," Mr Park complains. For instance, Samsung has been forced to recruit line workers from the neighbouring factory of the company's partner, Orion, whose attitude leaves much to be desired; he would like to base pay more firmly on performance but feels the issue is too sensitive to be raised now; and he has to compromise with the practices of Hungarian managers and workers.

Mr Park finds local managers lack cost-consciousness

He finds Hungarian managers bureaucratic and lacking in cost-consciousness.

After this list of problems, it may be surprising that Mr Park has recommended investment to South Korean visitors from Samsung's head office and other companies.

In the first place, he cites Hungary's proximity to Western Europe, which saves on freight costs; second, the relatively low wage levels for a workforce which is well educated and easy to train; and last, a supportive Hungarian Government which gives preferred joint ventures a five-year holiday from tax.

This industrial logic appears to have convinced many South Korean companies. Mr Park, for his part, is sure the Samsung venture will grow, and that other South Korean companies will soon follow.

Nicholas Denton

The streets of Seoul are no longer paved with gold

Investors must work harder

AT FIRST SIGHT, foreign investment in South Korea appears to be evaporating. As the economy slowed, workers went on strike and wages soared, direct investment by foreigners fell by 15 per cent in 1989.

However, the decline in investment is a less revealing symptom of South Korea's economic malaise than at first it seems. The apparent drying-up of investment can be largely ascribed to a fall-off in hotel projects following the 1988 Olympic Games. Investment in manufacturing fell by just 1.5 per cent.

More significant perhaps than the changes in the total sum involved is a shift in the nature of new investment taking place.

Korea is no longer a low cost manufacturing base for exporters. Faced with higher wages and a higher won, many producers of cheap textiles and consumer electronics have decamped to countries like Indonesia, Thailand and Malaysia.

However, in their place, new investors are being attracted to Korea by its skilled workforce, developed infrastructure and growing domestic market. Many of these newcomers are being warmly welcomed by the Korean Government, which hopes they will be able to give Korea a leg-up on to the next rung of technological sophistication.

"What is happening in Korea is typical of many developing countries on the verge of joining the league of advanced countries," says a recent report from Baring Securities.

"As Korean industries move more towards capital and technology-intensive areas, foreign investors with state-of-the-art technology and strong financial backing are being welcomed."

However some of the companies attracted by the growing domestic market may find their welcome slightly doubled-edged. The economic development which gives Korea the confidence to open its doors more widely to foreigners also ushers in more demanding conditions.

"The competition between foreigners and Koreans is getting steeper as Korean business is getting more sophisticated," says Dr Jung Sun Suh of the Daewoo Research Institute: "In the future, if you are going to survive over here, you had better have some clear advantage in terms of techniques, products or management skills."

South Korea's welcome is now clearly focused on high technology companies, to which it offers a string of tax incentives. For 42 industries ranging from software to precision instruments, the government will give exemptions from taxes on corporate income, dividend income, property and customs. The government has singled out this area because it feels that technology transfer will advance Korean industry more quickly than its own research and development spending.

It is not clear how far foreign companies will respond to the government's incentives. Many fear that, like a boomerang, the technology they now give to Korea could in time return to overwhelm them.

These concerns are heightened by a perceived lack of protection of intellectual property: "Many people are worried about transferring intellectual property rights as the legislation is seen as inadequate," said a UK executive in Seoul.

Other complaints by foreign investors – which generally centre on government red tape – have somewhat eased recently. The most obvious example of this concerns the sectors in which foreign investors are allowed to invest. New business areas are steadily being opened to foreign capital as domestic companies become more competitive and the government attempts to ease trade friction. Few applications are turned down, according to the Ministry of Finance, which attributes rejections to incorrectly filed applications. In any case, it is making an effort to simplify its approval procedures. Next year it expects to scrap its consultation process with relevant ministries and so approval should take just 30 days, half the period now needed to approve any investment over $5m.

Another irritation for foreigners is the Korean insistence that all companies, including foreign investments, should float on the stock exchange once they have satisfied certain conditions. The dilution of control this entails worries some companies, although their concern is likely to be alleviated by a recent decision to raise the qualifying condition from a three-year to a five-year trading record.

Finance is another topical issue. For the past few years foreign companies have taken the brunt of Korean concern about an inflow of "hot money" fuelling inflation. Foreign companies were encouraged to buy equipment overseas and bring in restricted amounts of working capital.

Now the country is no longer attractive to speculative money, the government's monitoring system has been virtually abolished where manufacturing projects are concerned, according to Kim Jong Chang, a director of the foreign investment policy division at the Ministry of Finance.

Foreign business people acknowledge that the government is easing restrictions, but maintain that financing is a major issue. Foreign companies find it more difficult to get loans from Korea's banks than local companies. A foreign company setting up a joint venture with a chaebol may find itself constrained by official borrowing restrictions on its partner.

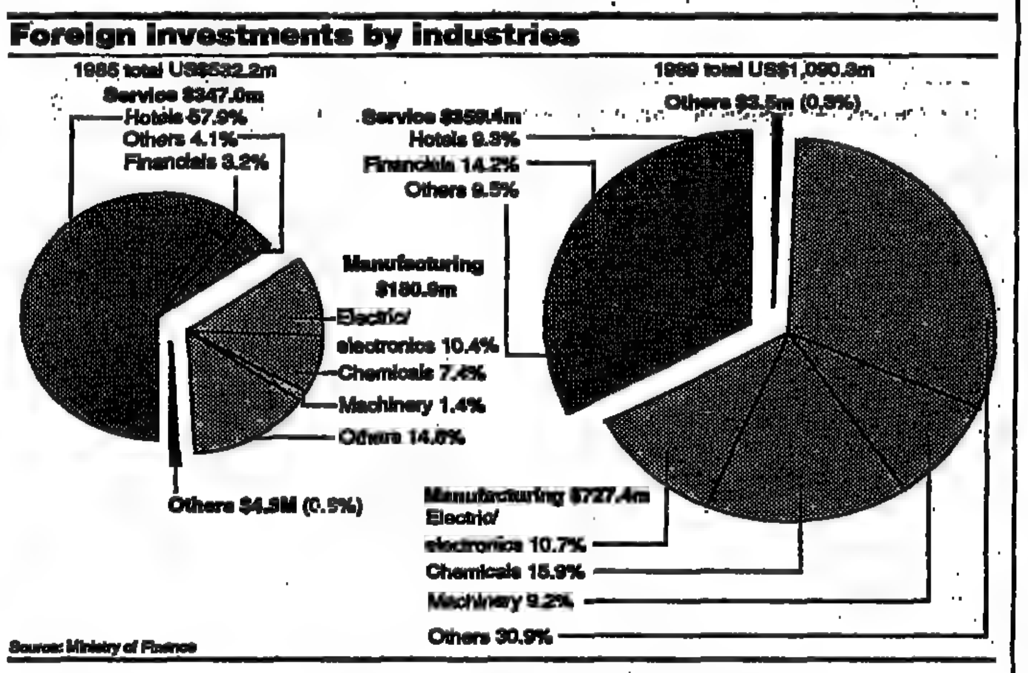
However, perhaps the greatest challenges in doing business in South Korea stem from language, and cultural and philosophical differences. Anyone, for example, who does business in South Korea, will soon become aware of the importance of personal relationships. Signing an agreement with one individual within a company does not necessarily mean that other powerful forces in the company are committed to the venture. Without a network of contacts dating back to school, university or military service, a foreigner will be severely disadvantaged in striking deals.

As a result, most foreign investments take the form of a joint venture. These too can present difficulties: "Different management philosophies can cause resentment," said Mr Thae Khwarg of Barings. Family-owned Korean companies may take a longer term view than a US company, which is judged by its quarterly earnings, he argued. Moreover, it will prefer to plough back profits rather than pay out dividends. "Korean companies are aggressive in terms of expanding production and looking for market shares, whereas a US investor is interested in profitability," he said.

However, cultural differences are part of doing business abroad, and the drawbacks of Korea are often outweighed by the opportunities: "Korea has never been a paradise for direct investments," said Mr Kwarg, "but despite such disincentives, even the companies that have pulled out have done very well."

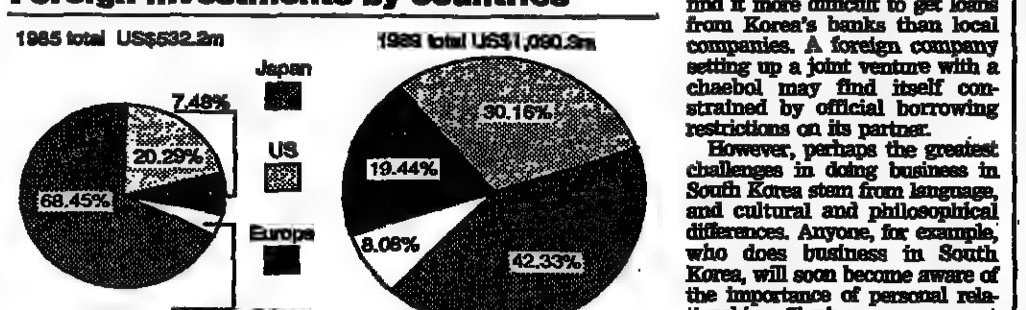
Vanessa Houlder

Foreign investments by industries



Source: Ministry of Finance

Foreign investments by countries



Source: Ministry of Finance

Big plans are afoot for the year 2000, writes Vanessa Houlder

ICI sends cautious forerunner

WHEN ICI set up a small plant to manufacture chemicals for the textile industry in Korea 18 months ago, it was testing the water for a potentially extensive investment programme.

By the year 2000, ICI intends to double to 20 per cent the proportion of its turnover coming from the Pacific Rim. This will mean large amounts of direct investment as well as increased trading.

To decide on the focus of this investment, ICI is closely scrutinising the products, markets, labour forces and business environments of the countries in the region.

In assessing the appeal of Korea, ICI can draw on the experience of both its joint venture, ICI Woobang, and its 11-year-old trading company, which has a turnover of $100m. This business started by selling PTA, a raw material for the textile industry, and now sells a range of increasingly sophisticated intermediates.

Conclusions about the investment programme have yet to be drawn, but in some respects Korea is considered to have a lot going for it. Furthermore, there is no doubt that Korea is one of the most important players in the region, second in many areas only to Japan.

None the less, there is a formidable set of obstacles to doing business in South Korea. Assessing these and finding a path through them is the task of Mr Alan Twist, who became chairman of ICI Korea five months ago.

One of the more topical issues he faces concerns the protection of intellectual property rights. ICI's own experience has been "mixed," he says. It has had a couple of products copied here and ICI feels it would be unwise to bring in the very latest technology without clear evidence that intellectual rights are being protected.

Other foreign businesses, particularly those from Europe, share the same concern, he says: "There is a degree of unhappiness among European companies because the US forced the Korean Government to protect patents by invoking the threat of sanctions under the Super 301 clause of the US Trade Act. European companies do not have such a strong stick to yield."

Finance is another headache: "There are quite strict controls on the import of foreign currency. Although the banking system is being liberalised, it is still quite difficult to import extra finance if required," he says. The problem is exacerbated by high interest rates: "Not only are funds hard to find but they are very expensive."

One nagging concern involves the government's attitude

Another nagging concern involves the government's attitude to foreign companies: "Foreign companies are regarded as prime targets by certain sectors of the bureaucracy. It is a concern to all foreign companies here that the tax departments maintain a list of foreign companies for investigation by a special department."

While there may be nothing sinister about this, he feels foreign companies in Korea should receive equivalent treatment to Korean companies in Europe: "There must be a concern that foreigners are being scrutinised more rigorously than local companies. It needs to be proven that foreign companies are getting the same fair treatment as Samsung and Daewoo in Europe."

Some unions may also discriminate against foreign companies, he thinks, citing the existence of a "foreign workers union." However, ICI has not had any problems with its work force other than escalating wage costs.

Further pressure comes from soaring land prices. In addition, purchasing land can be extremely difficult for a foreigner. This was one incentive to form a joint venture, according to Mr Twist.

The need for local knowledge about markets was another reason why ICI took on a partner: "It would have been unwise to go for a 100 per cent investment. We saw the value of his knowledge and expertise."

ICI's relationship with its joint venture partner is thought to have gone well. Nonetheless, cultural differences – mainly the extreme emphasis placed on personal relationships – have been apparent.

One example was that the Koreans have found the rapid turnover of ICI Korea personnel difficult to accept. Only one of the five people involved in negotiating the joint venture remains in Korea. Another is "the single minded purpose of Korea to develop and become a world power. Working for a foreign company is seen partly as siding with foreign interests." In addition, it is usually plain that a Korean in a foreign company cannot realistically aspire to the top job.

Given these disadvantages, companies like ICI Korea have to pay well and attempt to be sensitive to Korean culture: "Koreans cannot operate if a Western system is imposed," says Mr Twist. "The Korean staff will continue to operate to their norms. It is really the Western company that has to compromise."

One example of this concerns the status of women: "Women cannot be in a supervisory role, regardless of their qualifications," he says.

Another difference is that Western companies measure and reward jobs according to the responsibility, knowledge and skills required. In Korea the primary consideration is the length of time someone has been with a company, their loyalty and their age.

"The Korean management style stems very much from the fact that many Korean companies are managed by their owners," says Mr Twist: "The owners see their role as developing relationships to do business rather than being Western-style managers with computers on their desk."

This emphasis on relationships extends right through a company: "It is not possible for Korean managers in a Western company to go to a Korean company and meet somebody unless he has had an introduction through an old school friend and he has the appropriate status on his calling card," says Mr Twist: "A Korean finds it very difficult to make cold calls."

Manager-owners have a significantly different approach

Despite these difficulties and differences, ICI has been pleased with its progress in Korea. Last year's growth of 16 per cent was below expectations; and further pressures from rising costs are expected over the next few years. However, in general, ICI takes satisfaction from the expansion of its portfolio and the increase in the added value of its products since it arrived in Korea.

Overall, Mr Twist is cautiously positive about Korea's chances of attracting more investment: "The rapid increase in labour costs, the price of land and the tightness of money make it not the easiest country to invest in," he says. "On the other hand it may be the country with the most potential."

Sheer economic weight has turned the tide mounting against the big conglomerates, writes **John Ridding**

Chaebol fight their way back to favour with officialdom

SOUTH KOREA's chaebol, the large conglomerates which dominate the economy, are returning to official favour. The government's most recent attempt to curb their power has been shelved in an attempt to boost the slowing economy, and their influence is again evident in the formulation of policy.

The reasoning behind the change is simple. According to 1988 figures, the latest available, sales of the 30 biggest business groups were equivalent to 94 per cent of GNP. Although this figure is distorted by multiple counting of sales between the numerous subsidiaries of the chaebol, it does demonstrate that the success of the economy and the performance of Samsung et al are one and the same thing.

The success of the economy is tied up with the performance of the chaebol

However, the sheer size and power of the chaebol has made them unpopular. To the average Korean they represent the unequal distribution of the nation's wealth and are blamed for escalating land and rental prices through speculation in real estate. Such sentiment is exacerbated by the fact that their rapid growth resulted at least in part from government subsidies and preferential treatment.

Public sentiment, along with the need to develop the small and medium-sized industrial sector, has prompted a series of attempts to curb the chaebol. Most recently, restrictions were placed on the amount of new credit available to the conglomerates and on the cross holdings of equity between the group affiliates.

Since the 1985 collapse of the Kukje Group, then the sixth largest chaebol, the government has indicated it can no longer be counted on to bail them out of financial difficulties.

However, South Korea's comparatively poor economic performance, and in particular the 4 per cent fall in exports, has ended, at least temporarily, such anti-chaebol measures. "They have used the economic slowdown to increase their leverage," says Mr Todd Kilborn, director of research at James Capel in Seoul.

He cites as evidence the postponement of financial reforms to which they were opposed, the removal of credit constraints and even the replacement of the cabinet economics team in favour of more growth-oriented ministers.

Less clear, however, is whether the chaebol can deliver the improved economic performance sought by the government. "I have doubts that they will be able to turn it around," says Mr Kilborn.

Behind such pessimism lies a series of weaknesses. In particular, rising labour costs, and the appreciation of the won relative to the yen, have reduced the cost advantage of their exports relative to their principal competitors.

Even the more sophisticated operations such as Hyundai's motor subsidiary and Samsung's consumer electronics arm, have suffered falling sales in their overseas markets.

In many cases, however, the chaebols are themselves to blame for their declining fortunes. "They didn't invest in R & D and product development during the boom years of the late 1980s and as a result the technology and quality of their products has failed to keep pace with the price," says a senior official at the Economic Planning Board.

There are signs of improvement and a greater awareness of the need to move upmarket, but officials are sceptical about announced investment plans and R & D budgets, and emphasise that the benefits will be a long time coming.

The failure to invest in new products and production facilities reflects other weaknesses in the chaebol. In particular, most are still managed by their founders who, probably because of their success in developing their groups, are often reluctant to adopt new strategies.

"The founders tend to be very conservative in their management," says an analyst at a Korean securities house. "This is made worse by the fact that they still exercise almost complete control of the running of their groups and there is little initiative from middle management."

In a number of cases, such as Samsung, Sangyong and Lucky Goldstar, successful transitions to second generation control have been achieved. The number of unsuccessful successions, however, is greater, and the introduction of bottom-up management structures is rarer still.

The historically low levels of R & D expenditure and capital investment is also a reflection of the financial constraints of the chaebol. Because of their expansion through government-directed loans, most are constrained by debt ratios in excess of 300 per cent. In addition, because sales volumes have tended to take priority over profitability, margins and hence surplus funds have been tight.

Both of these problems are exacerbated by the sheer range of the activities of the chaebol. Most of the five largest groups are involved in business interests as diverse as shipbuilding, semiconductors, financial services, and textiles.

Government pressure on the chaebol to specialise and to focus on a narrower range of interest have come to little.

Two of the largest groups are committed to expand into petrochemicals even though there will be a clear problem of oversupply.

Samsung has announced it wants to enter the automobile industry, even though the sector is suffering its most difficult period.

"They justify such moves by saying they are taking a long-term view," says one western banker involved in supplying loans to chaebol. "And in the past, such as Samsung's move into semiconductors, they have proved to be right." But he adds: "There is also a strong element of 'metooism,' the desire to offer the range of products offered by their rivals, and this doesn't always lead to good business decisions."

Despite the range of difficulties facing the chaebol, and question marks over some of their strategies, there are also numerous examples of success. Samsung Electronics has made impressive gains in semiconductor technology and is one of the world's most competitive producers of 4M-bit Dram chips. Hyundai has developed an independent capability in design and development of automobiles.

Most of the big groups have also been pursuing strategies of overseas investment to overcome protectionist barriers and rising domestic costs. Goldstar has operations throughout Europe, Asia and North America and Samsung recently opened a television factory in Hungary.

In addition, they are taking steps to reduce their dependence on OEM sales. Goldstar

Most have been investing abroad in an effort to overcome protectionist barriers

Electronics plans to spend more than $70m this year on advertising in an attempt to increase brand awareness in its major overseas markets.

"Some of the more sophisticated groups have started making the necessary changes," says the official at the EPB. "However, the type of adjustments require a long-term commitment. I am concerned that many of the groups don't fully appreciate the need to adapt in order to survive in their increasingly competitive markets."

TOP TEN CHAEBOL: 1988 FIGURES (expressed in billions of won)

	SALES	NET PROFIT	MAIN ACTIVITIES
SAMSUNG	21,248	293,5	electronics, aerospace, textiles, food, insurance, advertising
HYUNDAI	19,030	236	construction, automobiles, shipbuilding, electronics, heavy machinery, insurance
LUCKY GOLDSTAR	15,602	204,8	electronics, semiconductors, oil and petrochemicals, trading, insurance, advertising
DAEWOO	10,401	115,8	electronics, machinery, automobiles, shipbuilding, aerospace, financial services
SUNKYONG	6,368	102	oil refining, petrochemicals
SANGYONG	4,316	135	cement, automobiles, machinery, trading, financial services

Source: Bank of Korea

The manufacturing base is vulnerable, writes **Robin Pauley**

Korea suffers from lack of forward planning

SOUTH KOREA'S huge conglomerates – the chaebol – have a lot to answer for. Their failure, as South Korea's industrial backbone, to take a long-term approach to labour markets, investment and research and development during the three years of exceptional boom from 1986 to 1988 means industry is less well equipped than it should be to deal with the downturn in the business and economic cycle.

The failure to invest sufficiently in upgrading high technology and, particularly, in research, has left the country's manufacturing base vulnerable to Japan as the won appreciates and the yen depreciates. The rapid rise in wages in recent years, unmatched by productivity, also means Korean unit labour costs have soared, leaving less developed countries to take up Korea's former major advantage of cheap labour base. In short, Korea has lost much of its international price competitiveness against Japan, which is a direct competitor in world markets with more than 50 per cent of Korean products. The scale of the competitive loss is remarkable: 36 per cent through the exchange rate plus another 30 or more per cent through labour costs in the last two years alone.

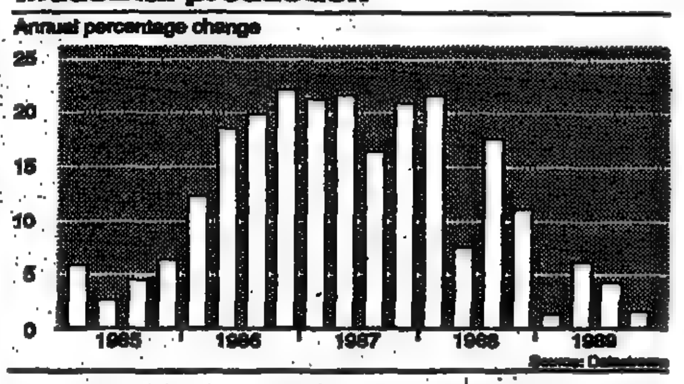
Not surprisingly, exports have plummeted – although part of the reason for this is also the gradual tendency to establish manufacturing plants abroad.

Between 1984 and 1988, average increases in industrial productivity just kept ahead of wage increases: "The real problem in productivity occurred in 1989 with a nominal wage increase of more than 20 per cent while the productivity improvement was only 10 per cent," said Mr Chae Jae Uk, director-general of the Ministry of Trade and Industry's industrial policy bureau.

"We have not done well in restructuring our industry, and we should have made more effort in the last three years when GNP growth was more than 10 per cent a year. Japanese companies like Mitsui and Hitachi achieved very great restructuring during the period of sharp appreciation of the yen between 1985 and 1988. The Korean chaebol have not responded as well as the Japanese."

Industrial production

Annual percentage change



Source: Datastream

Instead of upgrading their technology and raising the level of R & D investment, many large manufacturers responded to the boom times by profit-taking. When the boom ended last year they diluted the manufacturing base, looking for quick-and-easy returns either in speculative land and stock market purchases or through a switch into lucrative service industries. In 1989, the manufacturing industry grew at just under 4 per cent, the lowest since the economy siezed in 1980-81.

Many manufacturers responded to the boom times by profit-taking

Manufacturing output represented just 20 per cent of the country's economic growth in 1989 compared with 50 per cent the year before. Services represented 50 per cent of economic growth last year compared with 40 per cent a year earlier, according to the Bank of Korea.

The behaviour and the performance of the chaebol matters because they occupy such a large part of the Korean economy. The 30 largest employ 18 per cent of all Korean workers and account for 37 per cent of total sales. They are generally family concerns in which ownership and management still have not been properly separated.

They are powerfully connected in politics and have succeeded in having some of the more radical economic policies (and their sponsoring ministers) removed and some more chaebol-friendly policies substituted – including easier access to bank credits for one year and the postponement (possibly abandonment) of the abolition of false names in financial transactions.

The government is also trying to stimulate R & D investment with incentives including tax deduction for technical investment. The ratio of R & D investment to GNP was 1.9 per cent in 1987 compared with 0.9 per cent in 1982. The target for 1991 is a modest 3 per cent; it may not be achieved.

Attempts are also being made to upgrade the technological efficiency of South Korea's 60,000 small and medium sized industries (those with fewer than 300 employees) which employ two thirds of the workforce and accounted for 40 per cent of exports in 1989.

"We are trying to move away from labour-intensive manufacture to more value-added, high and intensive technology production. Computerisation is critical. But we now have a record technical shortage and a chronic shortage of technically skilled labour," said Mr Huh Sang Nyung, executive vice president of the Korean Federation of Small Business. Unless that key problem was addressed, the economic outlook for both large and small business would be pessimistic.

Although many industries have had a rough time with rapidly falling exports, all is not gloom and some sectors – shipbuilding and footwear, for example – are improving. Other sectors are being pushed towards greater concentration on the domestic market, which is a necessary part of the transition from developing to developed industrial economy – so long as the pendulum does not swing too far against exports.

The most notable adjustment, and one of the bumpiest, is facing the car industry. Car exports soared from 123,000 in 1985 to 576,000 in 1988 and exports represented around 60 per cent of all production. In 1989 exports dived by 38 per cent, hit by the exchange rate, unit labour costs and strikes. The collapse in car exports this year has been even sharper.

Domestic sales are up more than 20 pc in the first two months of 1990 compared to '89

However, domestic sales are rising fast, up more than 20 per cent in the first two months of 1990 compared with the same period of 1989. This year the estimates suggest two thirds of car production will be sold on the domestic market and only one third exported.

Before exports can rise again the industry will need new models attractive to the foreign market and a higher level of sophisticated technological production. Korean car makers invest 3 per cent of turnover in R & D; the Japanese, with the most advanced car-making technology and robotics in the world, still plough back more than 5 per cent of turnover into research.

The electronics industry is also experiencing a dramatic increase in domestic demand on the back of rising Korean consumerism while exports underperform. Production was up 10 per cent in 1989 but exports increased by a miserable 6.1 per cent in 1989 compared with 40 per cent in 1988.

However, domestic sales of consumer electronics rose by 25 per cent in 1989 and domestic sales of industrial electronics jumped 42 per cent.

A most hopeful trend is in footwear, where South Korean quality of sport shoes is among the world's best. The likes of Reebok, Nike, and LA Gear are increasing their orders with Korean manufacturers after a brief flirtation with low cost manufacturers in south east Asia where quality proved dismal. The 1990 export target of $3.8bn worth of shoes may prove too modest, one of the few industrial sectors where the immediate export prospects are undimmed.

Before exports can rise, the industry needs new models attractive to foreigners

A similar even more unexpected story is the turnaround of South Korean shipbuilding industry. Ships are back. The fleets laid up in yards and fjords around the world have gone – either to the bottom or to the breakers. New orders are coming in again. A huge order for five vessels to Hyundai Heavy Industries in January was a much needed and timely boost, and backlog orders are rising. Even better, the international market price for new ships is rising, which means improving margins for the builders compared with the years of vanishing margins prior to the 1980s' shipbuilding collapse.

Korean industry has been in difficulties before and has emerged stronger than ever. Its ability to lead the economy to a new high should not be underestimated, but as costs rise and competitiveness falls it will be ever harder to achieve, particularly with Japan as the main competitor. According to Mr Chun Dae Joo, managing director of the Federation of Korea Industries: "We need not just more R & D investment, but a comprehensive system of technology development, which does not exist here. Most businesses therefore feel that R & D investment is a very high-risk option, which will not generate enough profit. This must change if Korea is to succeed."

Most people agree. The test will be whether South Korea's leading industrialists not only accept the truth and urgency of this message, but also act upon it.


Picture: Glyn Genin

Tomorrow's leaders togged out in self-defence gear – but economic survival will take more than a few well-placed blows

KOREA'S ECONOMIC PERFORMANCE AND OUTLOOK END-1987 to 1990 (in percent)

	1988	1989	1990*
Real GNP growth	12.2	6.7	6.5
Consumption	10.0	9.8	8.7
Fixed capital formation	11.8	14.0	11.0
Merchandise exports	14.7	-6.5	7.5
Merchandise imports	11.8	14.0	10.0
Agriculture	9.0	2.2	3.0
Non-agriculture	12.6	7.4	6.9
Current Account Balance†	14.2	5.5	1.0
Trade account balance	11.5	4.9	0.8
Exports (incl. non-factor svcs)	69.6	61.3	64.0
Imports (incl. non-factor svcs)	48.2	56.7	63.2
Invisible balance, net transfers	2.7	0.6	0.2
Prices (%, base on year average)			
GNP deflator	4.9	4.8	5.5
Wholesale prices	2.7	1.5	3.0
Consumer prices	7.1	5.7	6.8

* Based on projection made in mid-January 1990
† In US$m

Source: Korea Development Institute

The textile industry has been shaken, writes **Peter Wickenden**

A crisis of confidence

ACCUSTOMED as they are to phenomenal rates of export growth, Koreans suffer symptoms of unjustifiable alarm when they see an annual increase that remains in single-figures.

The textiles industry is a case in point. Exports rose 9.2 per cent to $15.14bn in 1989, less than half the increase chalked up the previous year. Hence a widely-held (but mistaken) view that the industry, which in 1988 lost its long-held position as the country's largest export sector, is in decline.

Yet when one takes into account the combined impact of a 20 per cent average wage rise, a sharp increase in the cost of imported raw materials, the appreciation of the won and fiercer competition from developing countries, the industry's performance last year looks remarkably strong.

Although textiles' share of GNP fell, its share of total exports actually rose last year

Mr Park Sam Keu, director-general of the textiles industry bureau at the Ministry of Trade and Industry, notes that although textiles' share of GNP is continuing to fall, its share of total exports actually rose 1.2 per cent to 24.5 per cent last year.

He predicts that while growth will slow, and there will be some consolidation, the industry will remain a mainstay of the economy - and the country's biggest employer - for the foreseeable future.

The government's confidence in the textiles sector was underlined recently when it gave the nod for Kolon Industries to proceed with a $50m bond warrant issue in London next month.

This marks the first overseas issue by a Korean textiles company, and means the government considers Kolon to be in a high-technology business, said Mr Phillip Ham, manager of Schroders in Seoul.

Tongyang Nylon, one of Kolon's competitors, is expected to follow soon afterwards with a $50m convertible bond issue.

Mr Ham says the textiles industry has mirrored Korea's economic development since the government began its export drive in the 1960s. With an initial lack of capital and technology but a supply of cheap and diligent labour, the industry accounted for more than 40 per cent of exports ($340m) and 15 per cent of GDP by 1970.

TEXTILES' ROLE IN THE SOUTH KOREAN ECONOMY

	1985	1986	1987	1988	1989
Employment in textiles, per 1,000 people	725	768	784	743	-
Percentage of total manufacturing employ ment	20.6	20	17.8	15.8	-
Exports, in millions of US$	7,004	8,734	11,718	14,111	15,300
Percentage of total exports	23.1	25.2	24.8	23.2	24.5

Sources: Korean Federation of Textile Industries, Minister of Trade and Industry

Production expanded by 40 per cent in 1968 alone, and in the last two decades has increased more than 20 fold. In 1988 (the latest year for which complete figures are available) output grew by only 2.4 per cent, down from 11.8 per cent in 1987. However, output measured in terms of value added – more significant as the industry moves aggressively toward high value and high technology production – was up 3.8 per cent.

This is amply demonstrated by the fact that in recent months, the ever-stiffer quotas imposed by the US on Korean textiles have not been filled. Mr Ham says that although US and EC quotas were a main cause of the industry's slowdown in the 1980s (the US and Europe combined still accounted for more than 41 per cent of exports last year), they are no longer the serious problem they used to be. Beating quota restrictions, as well as reducing labour costs, has been the motive for moving production offshore.

In 1987 overseas investments by textiles companies totalled $36m in 42 projects, most of them joint ventures. By the end of last year, 126 companies had ploughed $130m into 20 countries, the majority of them (63) going to the Caribbean Basin and South America to maintain access to the US market via these countries' unused quotas. Another 46 have invested in south east Asia, making the Korean Government worry that as a result, countries like Indonesia may soon be edging Korea's more marginal home-based producers out of business.

While they acknowledge the ability of Indonesia, China and Thailand to cut into Korea's dominance of the low-end textiles and apparel markets, industry observers say that problems of capacity, technology, quality control and the educational level of the workforce will slow their advance once they reach a certain level.

Nevertheless, companies producing on Korean soil are being forced to invest in automation and research and development to stay competitive as wages and welfare payments soar.

Mr Kim Tae Hwan, general manager of the Kolon Group, says labour costs rose by 35 to 40 per cent last year, if account is taken of the reduction in average weekly working hours. The company is acting to reduce wage costs and avoid further damaging industrial trouble after a recent month-long stoppage. Production now concentrated in one large plant will be spread among several new ones that will be deliberately located far apart, and heavily automated.

"Where it now takes nine workers to produce a ton of nylon filament, it will take only two people in our high-tech plants," says Mr Kim, who expects productivity to rise by about 10 per cent this year. Costly though it will be, Kolon's new investments will be easily paid for by the sale of the existing plant, the land value of which has rocketed in recent years.

The number of people employed in the industry fell by 41,000 in 1988, while analysts estimate the average level of factory automation will rise from the current 30 per cent to between 45 and 50 per cent in the near future. Smaller marginal companies, which cannot afford large investments, are expected either to go to the wall or – the lesser of two evils – to work as sub-contractors for the larger ones.

However, automation is the easy part of trying to keep the industry competitive. Upgrading the level of technology to keep one step ahead of low-wage countries and at the same time push the Japanese further upmarket is the real challenge, says Mr Lee Sang Kyung, assistant general manager of the Korea Federation of Textile Industries (KOFOTI). Average R & D expenditure as a proportion of sales has risen from only 1 per cent in 1986 to 2.5 per cent last year, while the number of private research centres has grown from 20 to 60. Very little in the way of advanced technology is transferred from abroad these days, says Mr Lee, but an increasing amount is coming from several government-backed institutions.

Keeping one step ahead, technologically speaking, is the real challenge

As exports dropped, local demand increased, writes **John Ridding**

Auto manufacturers grasp thankfully at local market

THE condition of the Korean automobile industry is a tale of two markets.

Exports have been suffering their worst setback since Korean cars took the international market by storm in 1986. Last year, sales abroad fell by almost 40 per cent to 356,000 units, and the downward trend has continued this year.

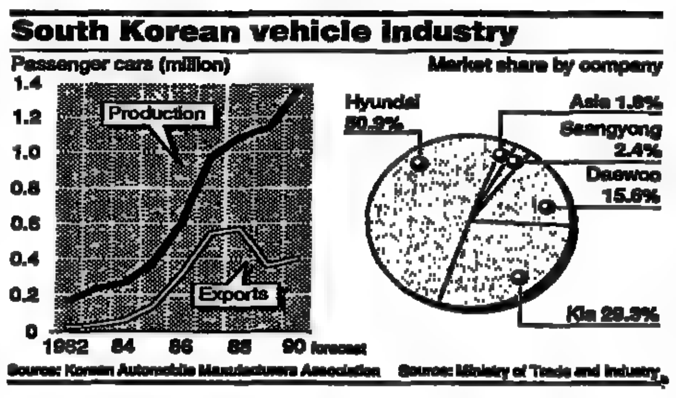
By contrast, the domestic market has been booming, expanding by almost 50 per cent last year to sales of 763,000 units.

Such strength in the domestic market has been fortunate for the Korean manufacturers. "We were lucky the market was here," says Mr Robert Stramy, Executive Vice President of Daewoo Motor Co, "Otherwise we would all have been in deep trouble."

To a certain extent, however, the differing fortunes at home and abroad are different sides of the same coin. Sharply increased wage costs over the last three years have been a factor in both increased domestic consumption and in the decline of international competitiveness.

To an extent, the differing fortunes at home and abroad are sides of the same coin

Other factors are also involved, however, in the differing fortunes at home and abroad. On the export side, the appreciation of the Korean currency, which rose by about 30 per cent between 1986 and 1989, forced Korean manufacturers to raise their prices. At the same time, the fall in the yen and the establishment of Japanese plants in the US brought the Koreans into closer competition with the major Japanese producers.



"It seems that many buyers switched to Japanese cars," said Mr Stramy, adding that "Korean cars do not have the same perceived quality."

Cost considerations are expected to ease somewhat this year. The won has fallen by more than 4 per cent since January, and disruption from strikes is expected to be far less severe. Wage awards are also expected to be lower than the 20 per cent rises averaged over the past three years.

However, external demand will continue to be weak. The US market, which accounts for about 65 per cent of total Korean car exports, has been suffering a downturn, and overall sales there are forecast to fall by about 5 per cent this year.

"Everyone has been suffering," says Mr Lee Soo Il, managing director of planning at Hyundai Motor Co. "Even Honda started offering rebates last year."

The difficulties facing Korean automobile exports also reflect deeper problems. Most immediately, the Korean manufacturers have concentrated too much on the US market and have suffered disproportionately as a result of its downturn. Attempts at market diversification are under way, but so far little progress has been made.

This has limited the rate at which new models can be introduced, and has also held back attempts to move into higher quality and higher value added products.

The current difficulties illustrate the relatively weak technology base of manufacturers

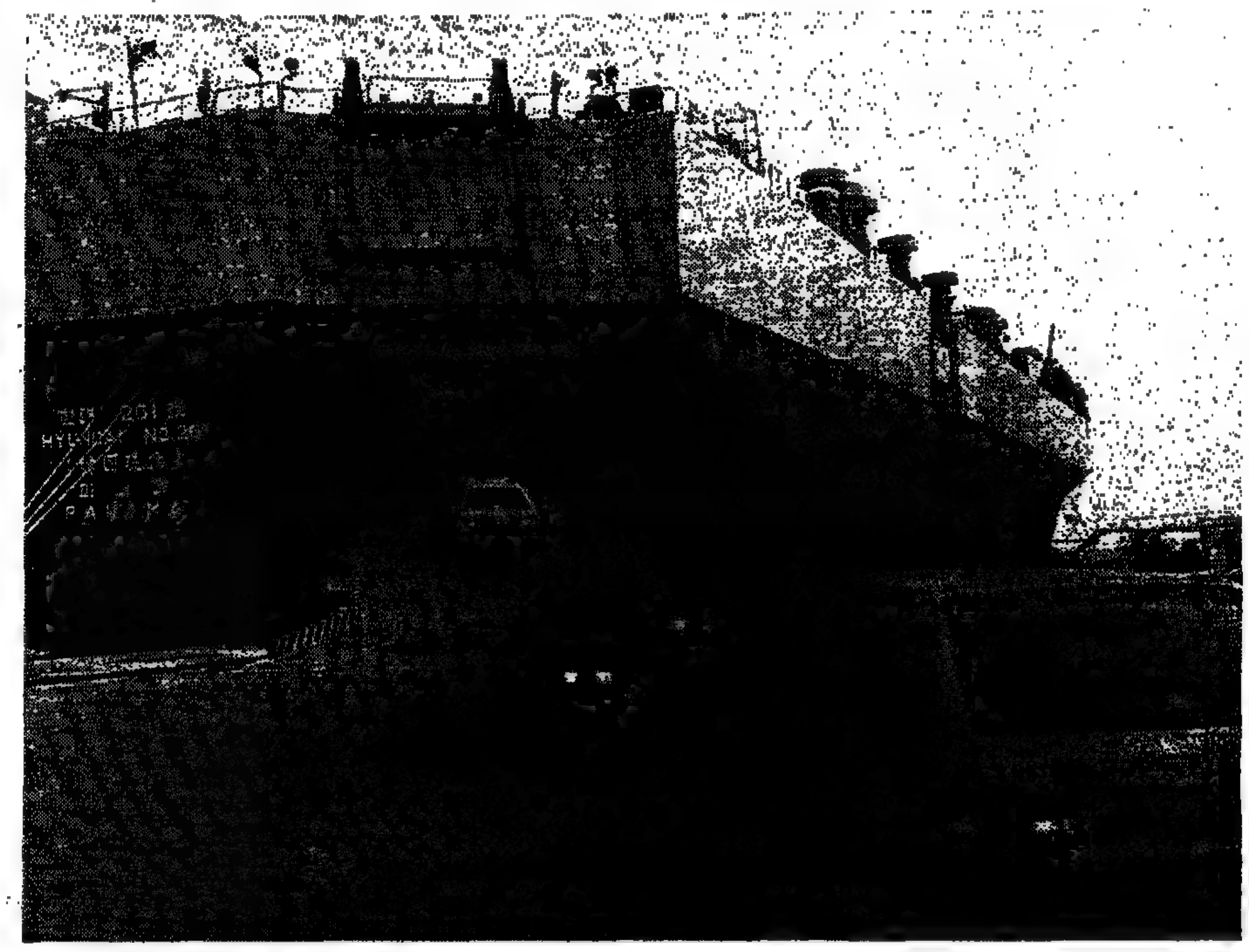
Traditionally, the Korean industry has developed through the acquisition of technology and design from foreign partners. However, this has become more difficult. "Foreign partners have regarded strategic alliances with Korean producers as a means of gaining access to low-cost production at the entry level of the market," says one motor industry analyst. "They don't want the Koreans competing with their upmarket models, and are reluctant to provide them with their more advanced design and know-how."

The alternative strategy, pursued most vigorously by Hyundai, Korea's largest manufacturer, is the development of independent technology and distribution networks. In many respects this has been successful, and Hyundai is now able to design, develop and market its own cars.

"We started to assemble our own-designed engines several years ago," said Mr Lee, adding that Hyundai plans to spend more than $200m on R & D this year. The problem with this approach is that it is slow and expensive and requires a relatively large volume of output over which to spread the increased costs. There is also the risk that a slowdown in the market will make it difficult to sustain an independent distribution network. "Hyundai must feel its US sales operation is an albatross around its neck," said a manager from a rival Korean producer.

For the time being, the domestic market provides a necessary cushion to declining exports, and provides a breathing space during which new models and technology can be developed. However, analysts are agreed it does not provide a long-term solution.

"The strength of the domestic market has surprised us," said Mr Stramy, "but I think that over the next two to three years we will see an abrupt flattening of demand."



Spanking new cars from the factory are loaded aboard Hyundai's own ship to be exported

Behind such pessimism lies concern about South Korea's traffic infrastructure. Although the ratio of passenger cars to population is about 1:30, lower than that of most of Korea's regional neighbours, the large majority of the population lives in a handful of large cities, increasing the concentration of traffic and creating severe congestion. Ambitious government plans for new roads and subway systems may help, but are not due for completion until the year 2001.

At the same time there are concerns about Korean producers' capacity expansion plans. Kia Economic Institute, part of the Kia Motors group, forecasts that 1.12m automobiles will be produced for the domestic market this year, but that demand will reach only 900,000 units. Several of the manufacturers are also in the process of building new production lines to come on stream from next year.

"The problem of excess capacity is very serious," said Mr Stramy. "It means plants can't operate at their most efficient levels, and increases the impact of fixed costs."

This increased capacity means Korean manufacturers must revive their exports. At the moment, however, the prospects are not particularly encouraging.

"We don't yet see any sign of recovery," says Mr Kim Yoo Chae, Director General of the Machinery Industry Bureau at the Ministry of Trade and Industry.

Mr Kim is more optimistic about the second half of the year, courtesy of the lower currency and reduced impact of strikes. Few analysts, however, expect a return to the export volumes enjoyed in the boom years to 1988.

Vanessa Houlder looks at Korea's golden export sector

The giddy years have gone for the electronics industry

A FULL-BLOWN crisis or merely a difficult transition? As electronics manufacturers face a second tough year, opinion is divided about the severity of the problems of Korea's largest export industry.

No one is in any doubt, however, about the change of climate since the giddy years between 1986 and 1989, when production increased annually by more than 20 per cent.

After a period of exceptionally beneficial conditions, fate seemed to change sides in 1989: "As the good times came together, then the difficulties also came as a package," says Mr John Koo of Goldstar, Korea's second largest electronics manufacturer.

In place of a lowly-valued currency, low wages and a disciplined workforce, electronics manufacturers were faced with a rapidly rising won and labour unrest which led to soaring wages and quality problems. In addition, trade friction mounted and the EC and US began to take a tougher stance in dealing with Korean electronics exports.

After an exceptionally good period, fate seemed to change sides in 1989

These problems took a heavy toll on exports, although the industry was buffered by a strong domestic market. Export growth fell from over 40 per cent in 1988 to just 6 per cent last year.

The problems are particularly acute for the flagship of the industry – the consumer electronics sector. It has been harder hit than the industrial and parts and components sectors because it relies on cheap labour and modest levels of technology. Shipments of consumer goods fell by almost 10 per cent last year.

The pressures are not letting up, and a further decline in consumer electronics exports is expected this year. The benefits stemming from the declining value of the Korean won against the US dollar have been tempered by the decline in the value of the yen, which has eroded much of Korea's price advantage over the Japanese. Some Japanese microwave ovens, for example, are reported to be cheaper in Australia than comparable Korean ovens.

Another problem for consumer electronic exporters is the economic slow-down in the US – Korea's main market, with a 37 per cent share of the total. Added to that is the threat of increased trade friction with both the US and EC, which is contemplating further anti-dumping measures.

It is a formidable set of problems. The yen may, however, bounce back – and anyway the Koreans are determined not to give up easily. Says Mr Koo: "We have to continue to support our long-term consumer relationships. We may have to sacrifice our profitability."

Even this year, however, the outlook is not all gloomy. The large consumer electronics companies are succeeding in diversifying away from the US market. For Goldstar, the US now accounts for 30 per cent of exports, compared with 50 per cent in 1988.

Taiwan, south east Asia, Central and South America, and the Middle East are all cited as growing markets. Eastern Europe and the USSR are providing rapidly expanding opportunities. Even China, where Korea's export hopes were stymied by the military crackdown last year, has shown renewed promise as a market.

Manufacturers are also optimistic about selling within Korea. Sales to the domestic market, which accounted for some 37 per cent of production in 1988, are moving more closely into balance with the export market.

Estimates of its growth this year range from 10 to 20 per cent, depending on how close Korea is considered to be to saturation in some areas, such as colour televisions. Some of the manufacturers are sanguine: "Families are buying 2 TVs and replacing the old with the new," says Mr Lee Jong Hae, of Samsung Electronics.

It may not be true the industry is in crisis, but companies must adapt to survive

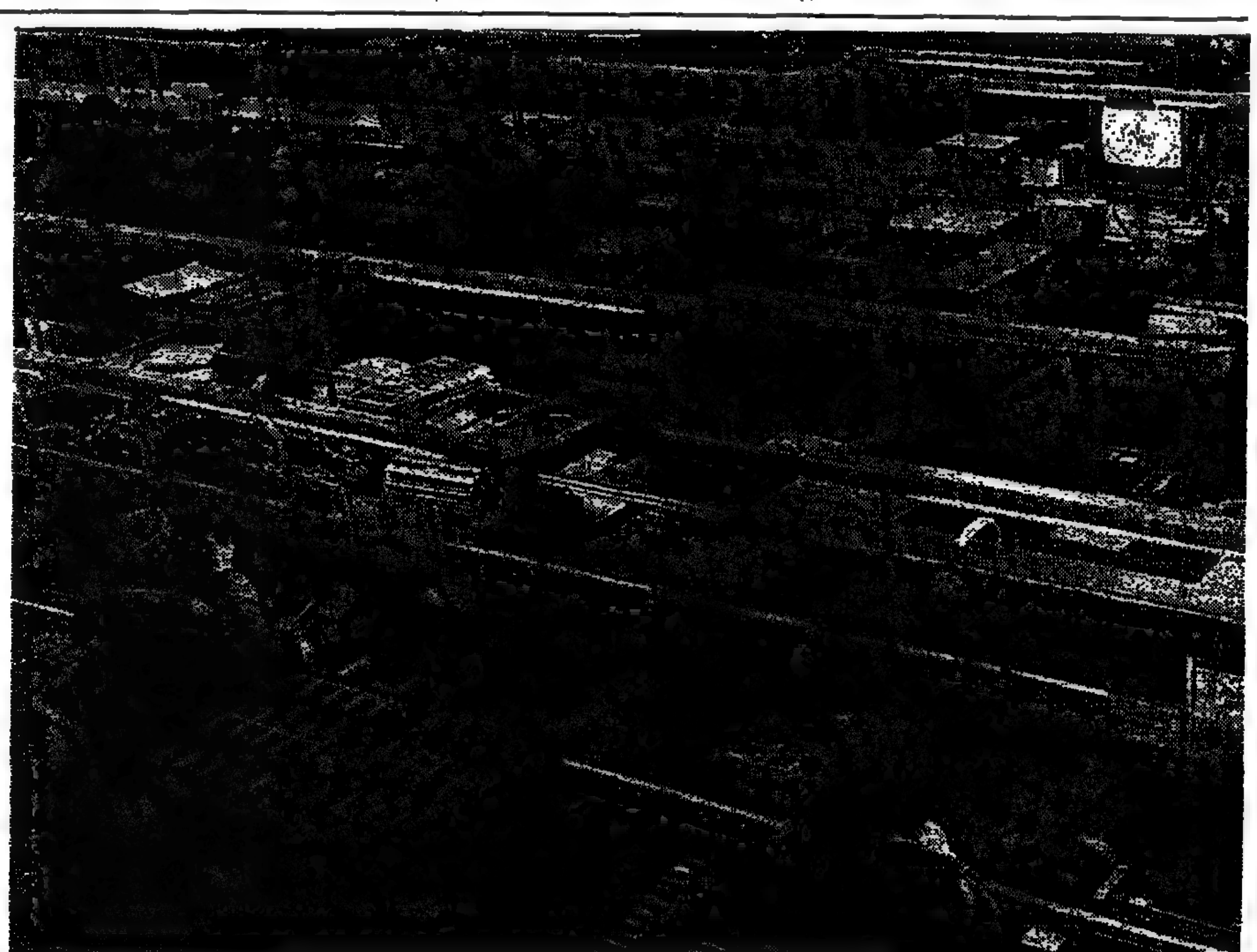
Another concern is intensifying foreign competition in the domestic market as import liberalisation progresses, according to Mr Han Rok Jung of Schroders. However, Korean manufacturers can take considerable comfort from their domination of the distribution channels and after-sales network.

It may be an exaggeration, therefore, to say that the Korean electronics industry is in a state of crisis. None the less, the companies are keenly aware they must adapt to survive.

An important part of their strategy is to establish more factories abroad to help tap new markets and gain access to a lower cost workforce. The largest manufacturers, such as Samsung and Goldstar already have subsidiaries around the world, with more being developed. Companies are also trying to get access to lower wage costs by using subcontractors within Korea for low margin items.

At the same time, they are seeking to develop their brand names in order to reduce their dependence on low margin OEM products. Goldstar, which is spending $77m on advertising this year, makes half its products under its own name, and it aims to increase that proportion to 80 per cent in the long term.

This is part of a general shift upmarket in an attempt to reduce vulnerability to rising wage levels and competition from rivals in the region. Quality, service and design are all priorities in an attempt to upgrade products, says Mr Koo. "When we compare our products with Japanese products, we see a lot of room for improvement," he said. As part of a shift to high value added products, companies are trying to shift their focus from consumer electronics, which accounts for 36 per cent of production, towards industrial electronics – which has 22 per cent of production – and semiconductors.



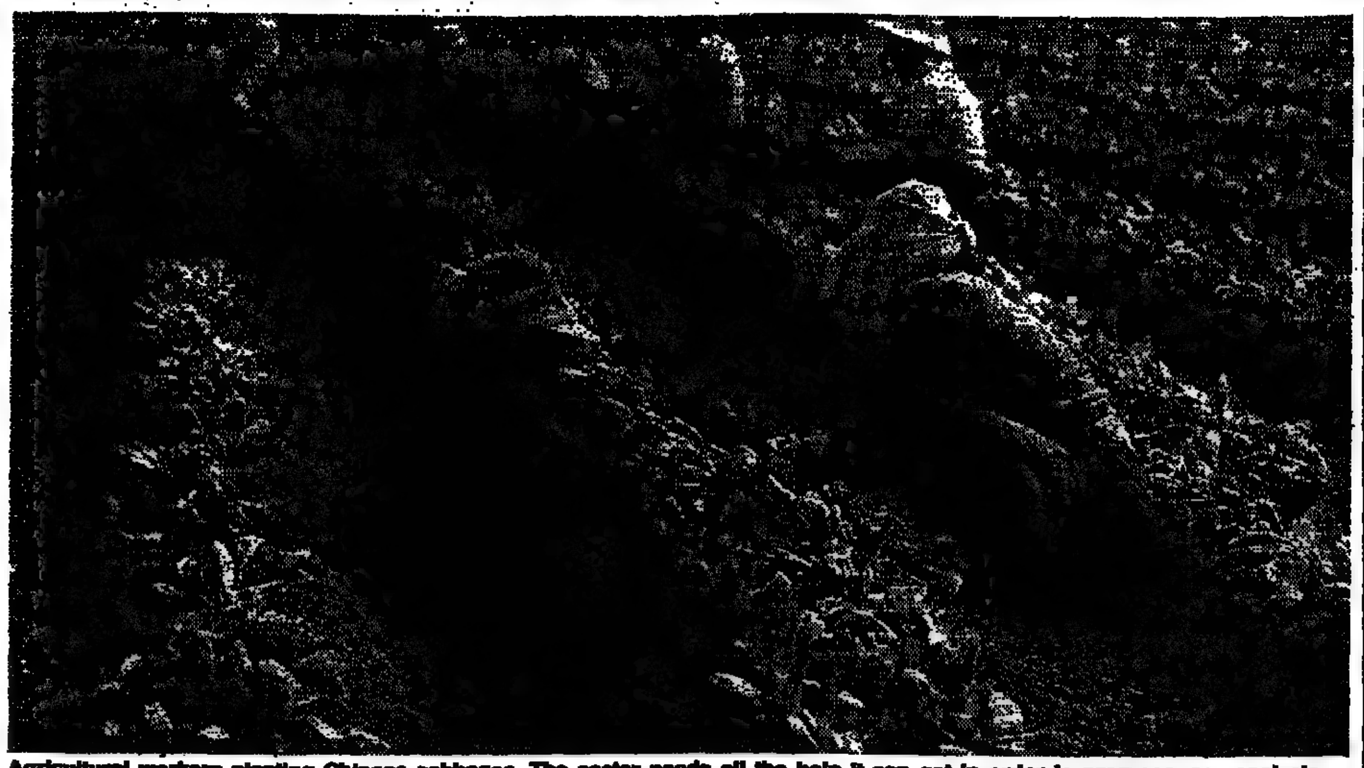
Korea's difficulties are especially acute for makers of small consumer goods, such as those built in this Samsung VCR factory

In increasing the emphasis on semiconductors, they will be following the lead of Samsung, South Korea's largest company. Samsung Electronics last year impressed the industry by announcing it was ready to start volume production of 4M-bit DRams, on which, it claims, it is merely six months behind the major Japanese producers. It is also developing 16M-bit DRams, on which it reckons to be abreast of the Japanese.

To have any hope of competing with Japan in high technology, some companies are starting to dig a bit deeper in their pockets for R & D funds. Goldstar is spending $280m or 6 per cent of its sales this year. Samsung will spend between 7 and 8 per cent of its $6.7bn sales this year, up from 6.3 per cent last year.

In addition, the major companies are likely to benefit from a government research initiative, which will provide about $3bn by 1994 for technical work on electronics, semiconductors and new materials.

The outcome of these efforts may be crucial. It has been said the electronic industry's hopes of survival are based, like the Japanese before them, on getting to grips with high technology. If so, the future of the electronics companies is a testing and uncertain one.



Agricultural workers planting Chinese cabbages. The sector needs all the help it can get in order to progress, say analysts

Open market means an unfair fight, writes **Peter Wickenden**

Farmers struggling into the 20th century

LOPSIDED government policies strongly favouring the development of the manufacturing industry have left Korea's agriculture sector in a sad state.

This, anyway, is what some government officials and agricultural economists would argue when faced with pressure to drop barriers to agricultural product imports. "Imagine a schoolboy being pushed into the ring to face Mike Tyson," says Dr Huh Shin Haeng, president of the Korea Rural Economic Institute (KREI): "We are not nearly ready to liberalise our market completely."

The Mike Tysons of the agricultural world – the US, Australia and New Zealand – see no reason why Korea should protect markets for products in which it has no comparative advantage.

Dr Huh sees their successful action through the GATT last year as a blow that could very well finish off the Korean cattle-raising industry within a matter of months, and bring other agricultural sectors down with it.

The Ministry of Agriculture, Forestry and Fisheries maintains that it is administering an almost medieval farm system, which in 1988 still employed 17 per cent (7.3m people) of the population. While direct competitors such as Taiwan and Japan carried out land reform to increase farm size and efficiency in the 1950s and 1960s, commercial farming did not start developing in Korea until 1968, and a programme of modernisation has yet to get properly under way.

Commercial farming did not start developing in Korea until 1968

As the manufacturing industry expanded, the contribution of agriculture to the GNP fell from 23.2 per cent in 1970 to 9.2 per cent in 1988, while the self-sufficiency rate dropped from 80 per cent to 38 per cent in the same period. The average farm size is 1.17ha, and in many cases this is split up into several separate lots some distance apart.

Dr Huh also says that as wages in industry increase rapidly, the disparity between farmers' and workers' incomes is widening equally fast, causing an ever-greater flow of young and better educated people to the cities. The rural population is ageing, poorly-schooled and has a shortage of young males, giving rise to social problems.

Reduction of tariffs and removal of import restrictions has been going on since 1980, and accelerated when Korea's balance of payments surplus began to mushroom from 1986. According to the KREI, the agricultural products market is already more than 80 per cent open, and 60 per cent of all foodstuffs and feed grain are now imported.

Although Korea has already conceded eventual defeat, the battle to open up the market completely is likely to become fierce, particularly where it affects staple crops like rice, and high-priced but low quality local meats and fruit. In April 1989, the government announced a three-year plan, under which import of 243 agricultural products will be liberalised by 1991, by which time the market should be 85 per cent open.

In addition, under a GATT Balance of Payments Restrictions Committee ruling last October, Korea must present a three-year import liberalisation schedule in March 1991 and another one in 1994, with the aim of liberalising the market completely by 1997.

However, former Minister of Agriculture Kim Sik was quoted in March as saying that Korea will never fully open its beef market as it must "at any cost" protect the local livestock industry. In the recent Cabinet shuffle, Mr Kim was replaced by Mr Kang Bo Seong, who, while in opposition, campaigned vigorously for the government to maintain a protectionist policy.

Senior ministry officials say Kang may try to stall the opening of the market until restructuring and modernisation of the industry have shown some results.

Dr Huh says it will take 10 years to establish a system of large and efficient farms. Until then, imports of beef, Korea's fourth most important product, will have a devastating effect. Of the 1.8m farm households, 702,000 are small cattle raisers, with an average of only two animals each. Many families rely on the yearly production of a calf, the sale of which keeps them just above the breadline.

"For these people, no calf means no hope," says Dr Huh: "If we liberalise the market now with a 20 per cent tariff rate, production of new calves will end by 1992. Even if we have a 100 per cent tariff, it will end by the year 2000. There will be enormous losses to farmers, and they are very emotional about it."

He attributes the ruling party's recent by-election loss in a rural district to disgruntled farmers, and ominously notes their propensity for staging violent protests. Dr Huh is resigned to seeing beef production all but disappear, but he has faith in the future of the fruit, vegetable, pork, chicken and flower sectors: "I have discovered an agricultural miracle: I have found at least 50 high quality items that we can export."

He is convinced that Korean pears, orange juice and leather, for example are quite simply the best in the world.

Exports of apples have increased by 2,100 per cent and pears by 530 per cent since 1984, Taiwan being by far the biggest buyer.

The value of pork exports to Japan increased 10-fold from 1986 to 1988 to reach $40.6m. Kimchi, the Korean version of sauerkraut, has also proven popular with the Japanese, who devoured nearly 3,000 per cent more in 1988 than the previous year.

Exports of apples have increased by 2,100 pc and pears by 530 pc since 1984

However, Korea's trade deficit in agriculture rose 190 per cent to $1.17bn in 1988, and it faces stiff competition in the fisheries and fruit markets from Taiwan as well as from developing countries in the tropics.

Restructuring to increase competitiveness is now a priority. The government's master plan calls for the spending of $28bn by 1993. Farmers are being paid not to produce corn and wine grapes, and given loans to buy each other's parcels of land in order to increase average farm size to 2.7ha by the year 2000.

To increase the proportion of non-farm income, 350 rural industrial complexes will be built by 1993, and training courses provided for farmers. To implement the plan, a special law for rural development is being drawn up.

Only when the plan has been successfully implemented will Korea consider speeding up the liberalisation of imports, says the ministry, which stresses the non-trade concerns of agriculture at every round of bilateral negotiations.

Says Dr Huh: "The whole point is that we must give farmers time to decide their own fate."

Ian Rodger examines the apparently golden future of building

Construction industry not as happy as it seems

KOREA's construction industry is probably the envy of its peers these days, with a booming home market and sharply improving prospects in its prime overseas market, the Middle East.

The home market, which was widely forecast to collapse after the 1988 Seoul Olympic Games, has bounded ahead. Total contract awards last year were up about 50 per cent to won 15,000bn, according to the Construction Association of Korea, and further robust growth can be expected for at least the next couple of years.

Orders from abroad, too, are set to soar this year, as oil prices rise and reconstruction in Iran and Iraq gathers momentum. The year got off to a great start with the signing of a mammoth $5.5bn contract between Dong Ah Construction Industrial and the government of Libya for the construction of the second phase of the Great Man Made River Project (GMR).

However, in spite of this favourable near-term outlook, all is not well in the industry. Contractors are finding that higher labour costs and a paucity of sources of easy finance are squeezing their once formidable international competitiveness.

At home, labour unrest and shortages have pared margins. As with many other export oriented industries in Korea these days, there is a certain amount of alarm about whether the miracle is ending.

"The situation is serious," said Chung Hoon Mok, president of Hyundai Engineering & Construction, the largest Korean contractor. While there were 85 contractors licensed to work abroad in the early 1980s, he said, fewer than 27 now remain, "and many of them do not have much new work abroad."

The Korean construction industry startled the world a few years ago by rising near to the top of some league tables of international contractors. Using a combination of cheap labour and tough management, Korean contractors, who had built up their expertise during their own country's rapid industrialisation in the 1960s and 1970s, muscled in on the big civil engineering markets in developing countries, especially the Middle East,in the late 1970s. In 1981, they bagged $13.7bn in orders from the Middle East, the second largest volume for any country.

Since then, unfortunately for them, things have got tougher. The decline of oil prices and the Iran-Iraq war drastically curbed construction activity in the Middle East as the decade progressed. Last year, the Korean industry took only $1.4bn in orders from the region.

A more serious problem has been the loss of competitiveness of Korean labour. There was a time when Korean workers would put up with low pay and primitive living conditions just to secure work on a construction site abroad.

A big problem has been the loss of competitiveness of Korean labour

No more. According to a Ministry of Construction official, Korean workers now insist on decent housing and and have successfully bargained for relatively high wages. The average monthly wage for overseas Korean construction workers is now $1,700 per month. The result is that Korean contractors have begun hiring other nationals, mainly Filipinos, Bangladeshis and Pakistanis, who are willing to work for much lower wages – about $650 per month – and live in primitive conditions. At the peak in 1982, there were 270,000 Koreans working on construction sites abroad; today there are only 17,300, and the Korean contractors are employing 40,000 nationals of other countries.

Among other things, this change means overseas contracting is of considerably less value to the Korean economy than it was, although so far there is no sign that the government is becoming less interested in it. However, there is some grumbling among contractors that the government is not providing enough sources of finance for overseas construction projects at a time when finance is becoming an increasingly vital element in the competition for contracts.

The contractors have been dismayed, for example, to find that in Iran and Iraq, where they worked on projects faithfully through the war, the authorities are more interested in cheap finance for their rehabilitation projects than in rewarding Koreans for their loyalty.

The contractors are trying to get out of their predicament in a number of ways, mainly by diversifying the source of their overseas contracts and by trying to increase their technological capability. A handful of companies have managed to get licenses in Japan and are patiently trying to establish themselves in that most difficult market.

The main challenge for the contractors, said Mr Chung, is to improve management skills. "We have to retool our organisations so we pay attention more systematically to the financial aspects of projects rather than just engineering. We live in a period when foreign exchange rates are changing all the time, conditions in financial markets change and host governments change regulations with little notice. We have to be much sharper."

The leading companies are spending more on training and are recognising that, as they move into higher technology areas, they can no longer aspire to be all things to all people. Instead, they must learn to carry out projects in co-operation with other contractors who have expertise in special areas.

All these pressures are less apparent in the domestic market where industry leaders frankly admit that the possibility of foreign competition is virtually nil. "In principle, the market is open, but there are many conditions that have to be fulfilled to get a licence," said Mr Jin Mo Gu, director of the planning and co-ordination office of the Construction Association of Korea. So far, not one foreign company has a licence.

The domestic market has also become more important to contractors in recent years, and now accounts for more than three quarters of the industry's total activity.

As one might expect of a rapidly developing country, the market is still strongly oriented to civil engineering. The construction of roads, bridges, dams, power plants, airports, railways and the like accounted for more than a quarter of contract receipts in 1988. Housing, including residential shops, accounted for 20.2 per cent, factory construction for 15.5 per cent and office and commercial building for 10.7 per cent.

The government, which has found its budgetary situation much stronger than expected in the past couple of years, has committed itself to maintaining a high pace of activity. Three new airports, a high-speed rail line between Seoul and Pusan and new subway lines in Seoul will keep many contractors busy in the next few years.

Domestic orders are expected to be up about 12 per cent this year from 1989

Also, the private sector is stepping up its capital spending in an effort to overcome the negative effects of the stronger won. Domestic construction orders are expected to reach won 330,000bn this year, up about 12 per cent from 1989, and the CAK is forecasting an average annual growth rate of 10 per cent over the next decade.

The industry's biggest problem at home may turn out to be a labour shortage. The CAK estimates the shortfall this year at 9,000 people, rising to 103,000 by 1992.

The association admits bluntly that this is because of poor working conditions at job sites and the high risk of industrial accidents, all of which suggests yet another challenge in the time ahead for company managers.

Poverty and corruption plague society, writes **Michael Breen**

Social problems escalate

FACED with having to tramp the streets with his young family, welder Lee Yong Choi committed suicide when his landlord asked him to vacate his flat. He wrote: "I can no longer face the shame of not being able to afford a roof over my family's head."

In Korea, where suicide is seen as a ritual protest for dissidents, labour activists or students who have failed the all-important university entrance exams, his death was barely noticed.

Dissident groups estimate that five people a week commit suicide because spiralling rents and land prices are generating a new breed of homeless. Now, alongside the well-documented plight of the many urban poor made homeless due to a redevelopment programme in Seoul to coincide with the Olympics, the voice of the middle class is being heard for the first time.

Rampant land speculation fuelled by spiralling prices and an acute land shortage has turned home ownership for most middle class Koreans, the new economic elite with a powerful say in politics and much desired consumers, into an "impossible dream."

While the coffee shop gossip pays passing reference to soaring crime, the still cantankerous sore of corruption in all walks of life and Seoul's ever-mounting traffic problem, the biggest talk is about property prices. The price of land, according to the state-run Korea Land Development Corporation (KLDC), soared 30.5 per cent nationwide. In some areas in Seoul it tripled in just months.

Embittered by the Government's decision to shelve key economic reforms that would have made it harder for the chaebol to conceal their use and ownership of land, many middle class Korean families are resigned in adulthood to life with the husband's parents in a small two- to three-roomed house shared by about six people. In Seoul, there are only six houses or apartments for every 10 families.

University-educated Soh Kyung Suk, director-general of the Citizen's Coalition for Economic Justice, a dissident housing watchdog, is still beholden to his parents for a roof over his head. After 15 years of saving he has only half of the US$290,000 needed to buy a new three- to four-roomed flat.

"I have come to the realisation that I am now never going to have my own home. While I was studying overseas I always believed that as our economy grew most of the middle classes would have a better chance of home ownership. But until there are major land reforms, that narrow gap between the 'haves' and the 'have nots' will never get better," he said.

With the Government turning its attention to flagging exports, there are fears that welfare spending will lose out in favour of export incentives. However, this year's spending on welfare is set at US$10.9bn (32.7 per cent of the budget) as against last year's US$9.8bn (28.5 per cent), according to figures from the Economic Planning Board (EPB).

In the key welfare sectors, social services accounted for US$590m last year, housing for $280m, health $190m, and health insurance $650m. For this year housing accounts for $300m, health $200m, and health insurance $870m. For housing and health these may turn out to be cuts in real terms.

In housing, the most pressing area, it is estimated that the present supply is only 88 per cent of demand. "The Government has to provide 300 to 400 apartment complexes now to meet demand," says Mr Soh of the citizens coalition. He claims the Government's programme to build five satellite cities around Seoul with 2m new homes by 1992 is inadequate.

According to the last government census taken in 1985, only 53,6 per cent of Koreans own their own home. "In the cities the figure is much less, around 41 per cent," says housing expert Mr Lee Kyu Bang of the Korea Research Institute for Human Settlements (Krish), a quasi government think-tank. Mr Lee, who earns around US$1,400 a month after tax, echoes Mr Soh's claim that the housing shortage is now no longer restricted to the urban poor. "By official statistics I am in the top 10 per cent earning bracket, but it is impossible for me to buy a decent house.

The main hurdle to home ownership is that finance is almost impossible to come by. The Government has earmarked US$5,800m for housing finance this year, up 300 per cent in the last two years, but this is still well short of demand. Loans are available from the National Housing Fund and Housing Bank, but there are limits – and on average these loans only amount to 30 per cent of that needed, with the rest coming from relatives and short-term credit institutions.

Once the "impossible dream" has been accomplished, all is not sunshine and roses. Householders lament that a breakdown in law and order following the street battles of 1987, when democratic reforms were granted, has meant that no citizen is safe.

In the new social climate, with a decline in Confucian values and teenagers no longer considering themselves accountable to their parents, robberies are reported at one in six households in urban areas. There is a rapid increase in teenage crime, including previously unheard-of accounts of youths raping and stabbing five- and six-year-old girls in playgrounds.

There has also been a public backlash against the police: reading between the lines of public hysteria as reported in the local newspapers, and government propaganda, there is no doubt that Koreans are genuinely concerned about public safety.

Incidents of women being kidnapped in daylight by "white slave" gangs and then sold to brothel owners have become an important issue with women's rights groups. On most days the press runs lurid stories of Korean teenagers being sent to Japan as entertainers, only to be forced into working as prostitutes.

Faced with an increasing incidence of armed robberies last year, the Government ordered South Korean policemen on foot patrol to carry guns from January. A midnight curfew has also been placed on all nightclubs except those in tourist hotels, as the authorities feared the nation's red light areas were becoming breeding grounds for hoods.

As well as mounting crime, Koreans are concerned at the corruption which is still very much a part of everyday life. In spite of several campaigns to crack down on crime in the civil service, many palms still have to be greased in business circles and education. The white envelopes or "chonji" are still much in evidence in the schools and government departments.

In education, with most universities still embroiled in various disputes over more say in campus affairs by students, reforms to the all-important entrance exams are being blocked by hawks in the Education Department. So stiff is the competition, with only one in eight students securing a place the first time around, that last year 128 secondary students committed suicide, mostly through anguish caused by poor academic performance and family strife. Of last year's 188,254 graduates, 37.8 per cent have still to find a job.

In the coming decade, with the Government's official unemployment figure of 2.7 per cent said to be understating the real position which is closer to 4 per cent, unemployment, especially among graduates, is expected to be the next social problem to overcome - and perhaps the next cause of rising suicides.

Two Korean women in colourful hanbok national dress, still worn today for ceremonial and special occasions such as weddings. *Picture: Glyn Genin*

KEY FACTS

Area (sq km) 99,222

Population (m) 41.97

Head of State Roh Tae Woo

Currency The won; 100 chun=1 won

Ave. Exchange rate 671.46won/$

ECONOMY (Figures in US$m)

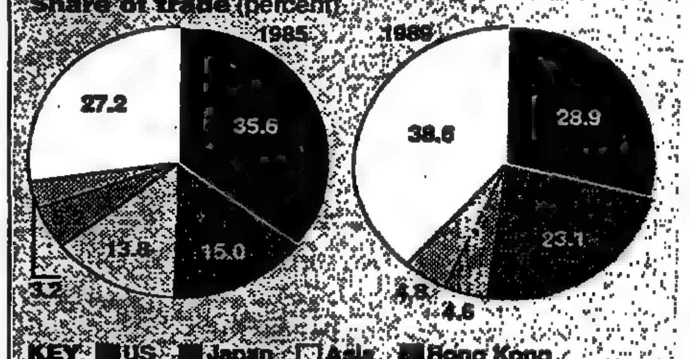
	ave. 1979-89	1988	1989*
Total GDP (US$ m)		180,133	210,020
Real GDP growth	8.0%	11.3%	6.1%
GDP per capita		4,040	n.a.
Curr. Account Balance (US$m)		14,161	5,104
Budget Deficit as % of GDP		+1.7%	-1.5%
External Debt (US$m)		43,183	39,442
Debt service/exports		12.7%	10.1%
Growth in agricultural output		9.0%	2.2%
Growth in manufacturing output		13.0%	3.5%
Exports incl. non-factor svcs		59,648	61,290
Imports incl. non-factor svcs		48,203	56,775
Trade Balance		11,445	4,525
Composition of exports			
Electronics		14.1%	n.a.
Textiles		22.2%	n.a.
Iron & Steel		8.8%	n.a.
Machinery		8.2%	n.a.
Exports by main market			
USA		24.6%	28.9%
Japan		30.6%	23.1%
West Germany		4.0%	4.6%
Hong Kong		1.1%	4.8%
Export volume growth rate		13.0%	4.6%
Import volume growth rate		14.2%	15.7%
Inflation	8.1%	7.2%	5.7%

SOCIETY

	ave. 1979-89	1988	1989
Life expectancy	66.9		
Population growth rate		0.97	0.97
Population under 25yrs (m)		20.28	20.09

Researcher: Chris Flood, FT. *1989 figures provisional

Share of trade (percent)



Seoul: one big traffic nightmare

IF YOU take a taxi from Seoul's Kimpo airport, the chances are you will be ripped off. The fare to downturn Seoul should be around won 7,000. A fast-running meter or a cheat with the meter off means you will probably be asked for at least won 15,000. After protesting and producing a pen and paper to note his number (not the number pasted in front of the passenger seat which is only a telephone number) you may get out for won 10,000.

Don't worry. This can only get worse. At least you can get a taxi at Kimpo – and probably keep it to yourself too.

Seoul is one of the world's traffic nightmares. Taxis are incredibly difficult to get; drivers often refuse to turn on the meter; they pick and choose whom they feel like taking and regularly refuse to go to even quite accessible parts of town. When they go, they drive like demons possessed if there is a free bit of road (which is not often as Seoul is usually a gigantic traffic jam crawling from one side of the Han River and back again). Hapless potential passengers shout their destination into partially occupied taxis; sullen drivers may take them in if no major detour is involved.

If you do get a cab there is plenty of time to consider your luck: the average time needed to travel 20km by car in Seoul is 56 minutes (Tokyo 44, London 32, Paris 31, New York 29 according to the Korea Transport Institute, although rush hour travellers of those cities may also be forgiven a disbelieving gasp). Traffic speed averages only 18km/h in Seoul – and will be down to 12km/h in 1992 and 6km/h by 1996. This may be as well, considering South Korea has one of the world's worst road death tolls: 32 killed a day (plus 788 injured), which works out at an annual death rate of 24 per 100,000 people (19 in the US, 10 in Japan and 9.5 in Britain).

Is the subway the answer? Not unless you are exceptionally robust: the subways cram in 2.8 times their maximum capacity during the rush hour, passengers being forced into the carriages by "push men" who earn US$3 an hour for this service on the platforms. If you are unlucky enough to be coming from Inchon to Seoul on the morning subway, the train will have 3.3 times its maximum passenger capacity and your feet may never touch the ground.

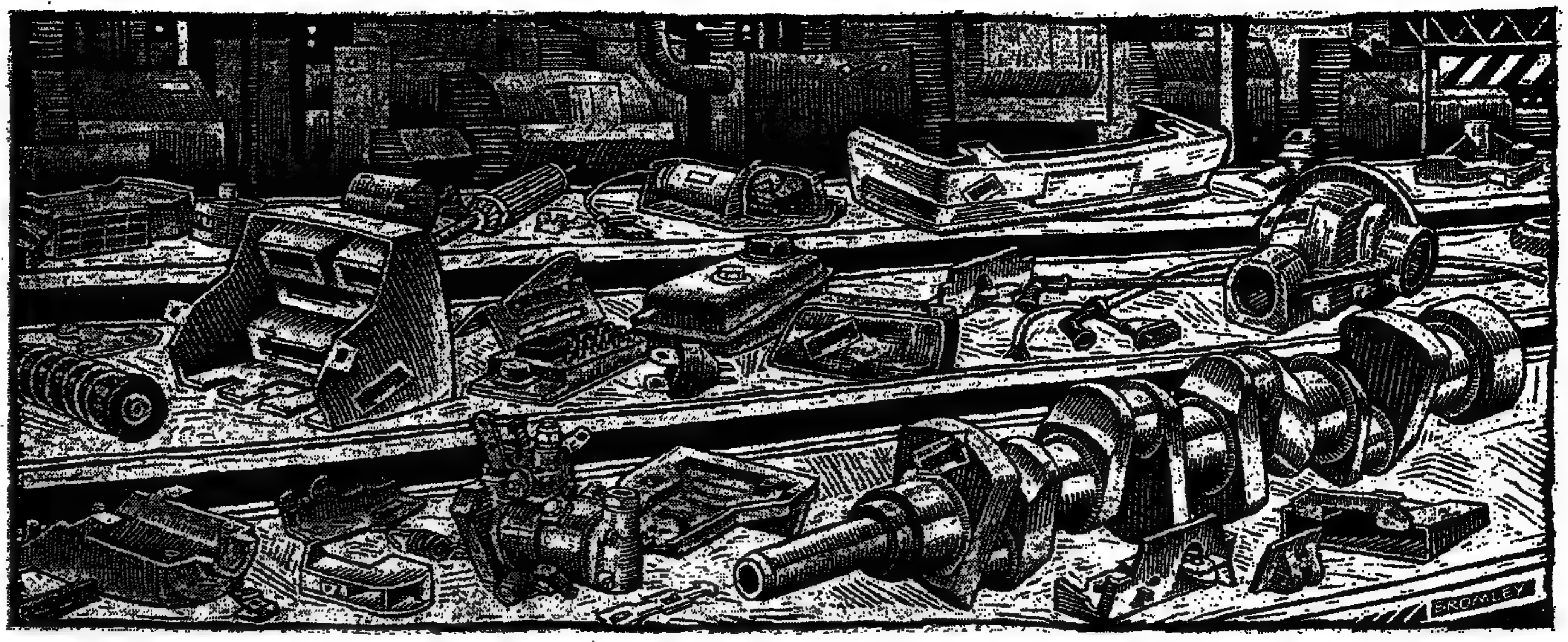
Buses? Very complicated, and 1.5 times maximum capacity at rush hour. Maybe "Kyotongchiok" (traffic hell) is preferable, and there is always the chance that you will happen upon one of the rare golden individuals – a friendly, honest driver who knows the way to your destination. Just take something to read and plan on being late.

Robin Pauley

SECTION IV

FINANCIAL TIMES SURVEY

The world automotive industry is entering a decade of intense global competition and rivalry, and a new phase of restructuring has begun. In response, an exclusive group of so-called first-tier component suppliers is beginning to develop. Kevin Done reports



WORLD Automotive Components

A build up of pressures

THE COMPETITIVE pressures building up in the global automotive industry are forcing a re-shaping of the often turbulent and adversarial relationships between the vehicle assemblers and their components suppliers.

The drive by vehicle assemblers for improved quality and productivity depends vitally on the components industry. Both sides of the industry accept that suppliers must be drawn into much closer relationships, with the components makers shouldering a growing share of the research and development burden. In return the component makers expect increasingly to be chosen as single source suppliers with long-term contracts.

This global challenge is leading to the development of an exclusive group of so-called first-tier components suppliers, which are becoming crucial to the vehicle makers' ability to maintain a technological lead in different sectors of vehicle development and performance.

According to a recent Arthur Andersen Delphi Study "relationships between vehicle manufacturers and suppliers emerge as one of the most critical issues of the 1990s. Vehicle manufacturers seem to be insensitive to the needs of suppliers, which in turn causes suppliers to be somewhat cynical. Teamwork and processes for working together are essential for each group's success in the years to come."

The world auto industry is entering a decade of intense global competition and rivalry, and a new phase of restructuring is under way with the focus at present on in Europe. In the last few months Ford of the US has taken over Jaguar, the UK luxury car maker, General Motors of the US has acquired a 50 per cent stake and management control in Saab, the Swedish car maker, while Volvo of Sweden and Renault, the French state-owned auto group and the smallest of the big six volume car makers in Europe, have entered into a far-reaching alliance involving both their car and truck operations.

Daimler-Benz is holding wide-ranging talks with Mitsubishi of Japan, while Ford and Fiat are negotiating a restructuring of their tractor and heavy truck operations.

Changes in ownership of the vehicle makers can have immediate consequences for the components industry. "At a stroke the relationships that they have built up over many years with a manufacturer are at risk. Overnight they find that the decisions about components to be used in a new car model are being made by engineers and purchasing people in another company in another country," says Mr Karl Ludvigsen, chairman of Ludvigsen Associates, the UK-based automotive industry consultants.

At the very least such a process of consolidation is adding greatly to the squeeze on suppliers' profit margins, as the vehicle assemblers seek to use larger volumes to push down their purchasing costs.

The world's leading vehicle makers are bracing themselves for a decade with relentless competitive pressures as overcapacity in the auto industry increases, the rate of growth in demand slows and the expansion of the leading Japanese car and truck producers develops further in North America, and begins to have an appreciable impact in Europe.

The vehicle makers are facing sharply rising expenditures on product development and heavy capital investment demands, not least to deal with increasingly stringent environmental regulations.

For Mr Raymond Levy, chairman of Renault, the unpalatable agenda facing the auto industry includes:

- A downturn in the car and truck market, which was at a record level in Europe last year.
- The question of "the very acceptability of the automobile," its effects on the environment with air pollution, noise, traffic congestion and safety.
- The quickening pace of technological change, sharply rising research and development costs, the launching of new models at closer intervals.
- The ballooning of capital expenditures and steeply climbing marketing costs "as competition increases with the attendant risk of a price war."
- Overshadowing all these elements, the Japanese threat, the building of Japanese production and engineering capacity inside Europe, and the expectation that the Japanese share of the European market could rise to 18-20 per cent from around 11 per cent (9.5 per cent within the European Community) implying the possible elimination of one of the present players in Europe.

The challenges facing the vehicle makers are no different for the component makers. Mr Vincent Sarni, chairman and chief executive of PPG Industries of the US, a leading global producer of flat glass and coatings for the automotive industry, says the industry is facing "wrenching adjustments and shrinking margins. There can be no doubt that the 1990s will test the industry's ability to adapt, as never before. In the market-place the Big Ten (the leading US, Japanese and European auto groups) face the commercial equivalent of war, and we know that some of the combatants are faced with capital spending needs that weigh heavily on their ability to stay on the field."

The automotive components industry is still highly fragmented – particularly in west Europe. Many small and medium-sized components makers are limited to operating in national or regional markets, but these companies are increasingly being confronted by competition on a global scale as the industry leaders internationalise their operations to follow closely in the foot-steps of the vehicle assemblers.

Western European suppliers are facing the looming challenge from their Japanese rivals, which has become reality in North America.

It is estimated that Japanese components makers have established more than 300 plants in North America, largely supplying the so-called transplants – the North America-based Japanese car and truck assembly plants.

According to Mr Gregory Macosko, a principal of the US-based Easton Consultants, which specialises in strategy development for automotive companies, the arrival of the Japanese components makers in the US has "shaken the foundations of the domestic supplier community."

Throughout most of the 1980s between a quarter and half of the components transplant operations started in North America have been in the form of joint ventures, but Mr Easton suggests that this share will fall in the coming decade, and in some cases the Japanese components makers are buying out their local partners. Easton calculates that the number of transplant components plants in North America will rise to more than 350 during the early 1990s.

It is unclear to what extent the North American experience in components will be repeated in west Europe. Japanese vehicle assemblers have claimed that they will be seeking first and foremost to use existing components makers in Europe to supply their local assembly plants, but some of the large Japanese automotive components companies are demonstrating that they are determined to follow the assemblers by breaking into the European market. Significantly, most of the big Japanese companies are tied closely to the vehicle makers through tightly interlocking equity holdings.

In recent months both Nippondenso and Calsonic, which belong respectively to the Toyota and Nissan control spheres, have made important forays into Europe.

The moves are the first steps by Japanese automotive components makers to establish a presence in Europe through acquisition.

The intensity of the battle was underlined earlier this month with the decision by the US Federal Trade Commission to investigate the activities of Japanese car manufacturers in the US following complaints from US industry that they have entered into exclusive relations with their Japanese parts suppliers, and have exported to the US their "keiretsu" system of interlocking boards of directors and rigid supply agreements.

The US investigation will focus on "ownership interests, supply contracts, any evidence of discriminatory pricing and the possibility that singly or in combinations, these tactics may produce exclusionary effects that limit the ability of US firms to compete effectively."

IN THIS SURVEY

Editorial Production: Phillip Halliday

Kevin Done assesses the prospects of the world's markets

Burdened by excess capacity

THE AUTOMOTIVE industry will be burdened by an excess capacity to produce around 8.4m vehicles this year, an over-capacity of about 20 per cent, according to Mr Harold Poling, chairman and chief executive of Ford Motor of the US, the world's second largest car maker. Over-capacity of this magnitude "means we will be facing a brutally competitive environment world-wide."

The world car market is expected to show growth in each of the next five years, according to the latest forecast from DRI Europe, the London-based automotive analysts, but the expansion of demand will only soak up a modest part of the new capacity that is being built as competition intensifies between the leading vehicle makers of Japan, Europe and the US.

Car sales world-wide grew by 2.9 per cent last year to 35.4m following an increase of 5.4 per cent in 1988 according to DRI's World Automotive Forecast Report published this month.

DRI expects a slower growth rate through the first half of the 1990s. World-wide sales are forecast to be virtually unchanged this year, but demand is expected to accelerate gradually with growth of 1.1 per cent in 1991 and 1.7 per cent in 1992. By 1994 world-wide car sales are forecast to reach 38.6m compared with only 30.3m in 1984.

According to Ford the trend of growth in the world automotive market including trucks is expected to be about 2 per cent a year over the next decade compared with 3.5 per cent a year in the 1980s.

Importantly for leading component suppliers, which are having to establish a global presence to match the activities of the vehicle assemblers, Ford calculates that about 60 per cent of the expected growth in auto sales in the next 20 years will come from emerging markets, such as eastern Europe and the Soviet Union, China, India and other Asian markets, where the leading groups have little or no presence today.

The pattern of world-wide sales demand expected in the first half of the 1990s was apparent last year with western Europe continuing on a path of strong growth with sales reaching 13.4m, a fifth successive record, while sales in North America suffered a decline of 6.8 per cent to 10.85m of which US sales fell by 6.8 per cent to 9.87m.

Most impetus for growth last year came from the Asia Pacific region, however, where sales jumped by 28 per cent. The biggest jump came in South Korea, where the new car market grew by 57 per cent to reach 500,000 units. According to DRI the rapid expansion of sales in South Korea was in part due to the failure of South Korean cars in export markets, which made more available to meet domestic demand. DRI forecasts that the South Korean domestic market could have doubled to more than 1.1m by 1994.

New car demand is expected to remain strong in Japan, where sales jumped by 13.5 per cent in 1988 and by 18 per cent last year to reach 4.4m helped by a package of favourable tax reforms in April last year.

Japanese domestic car sales are forecast to exceed 5m for the first time in 1995. European car sales in Japan are growing strongly, admittedly from a small base, and claimed 3.6 per cent of the Japanese domestic car market in 1989 with sales of 160,000 compared with 1.5 per cent in 1985. DRI forecasts that European penetration of the Japanese market could reach 6 per cent with sales of 235,000 in 1994.

DRI forecasts that the US market faces tough times having fallen below the psychologically important 10m barrier last year with a further small fall expected this year. The US new car market is forecast to remain below 10m units a year until 1994 hovering around 9.7m until then.

The western European car market, which overtook North America to become the world's biggest regional car market in 1987, has been growing strongly for five years with sales rising to 13.4m in 1989 from 10.2m in 1984. DRI expects sales to break through the 14m level in 1994.

With world-wide sales expected to stagnate this year world car output is likely to fall marginally by 0.9 per cent to 35.4m following an increase last year by 3.7 per cent to 35.7m units.

Car production in western Europe rose by 5.3 per cent or 670,000 units to 13.75m last year according to DRI, but it was the Japanese car makers that had the biggest impact on world car output.

Japanese domestic production rose by 10.4 per cent or 854,000 units allowing it to exceed 9m units for the first time. Japan accounted for about two-thirds of the net rise of 1.29m units in world car output last year. At the same time there was a substantial increase in output by Japanese plants in North America, in spite of the overall drop of 3.8 per cent in North American car output.

PROFILE: BBA

'We have the technology'

BBA executives can look at the Porsche 911 Carrera 4 with pride because this symbol of West German high performance motoring uses its brake pads and clutch. Such proof of BBA's advanced technology gives it confidence that it has nothing to fear from the Japanese coming to Europe.

When the time is right to negotiate joint venture agreements with the Japanese component makers, BBA believes it will be in a strong position.

Mr Peter Crawford, chief executive of BBA's AP clutch, brake and steering business says: "They need us more than we need them because we already have the technology. There is a chance one Japanese clutch maker will set up here but that company makes clutches under licence from us and they will have to talk to us about Europe."

The company's friction material division ranks first in Europe and among the top two in the world. "The Japanese are pressing us for the (asbestos-free) technology of our materials for their high performance cars and that, perhaps, places us in a strong position to gain a more favourable agreement," says Mr George Cartwright, chief executive.

"We are quietly getting on with developing relations with the Japanese," says Dr John White, BBA chairman. AP is not in the high volume brake sector yet. However, Dr White has his eye on filling the unused quarter of the AP factory at Leamington Spa factory by producing brakes under Japanese licence for the Japanese transplants in the UK.

The spare capacity at Leamington is a result of a large shake-up within AP. The workforce was cut from 5,500 to 3,600 and it took three years to get the operations profitable.

The "quiet revolution" has included replacing the centralised management with five separate businesses operating on the single site. Cutting the inventory from £60m to just over £30m has freed large areas of floor space at the plant.

Investment has been made to replace the high volume production machine tools with more flexible systems. AP is no longer in the mass produced foundation brake business. The capital investment has made AP competitive in Europe but ex-factory costs still lag up to 25 per cent behind the Japanese. Nissan's UK-built Bluebird does not use an AP clutch and Mr Crawford admits AP was too expensive.

AP's brake contracts come from the truck and van sector and niche car producers including an order for the new Land Rover Discovery. Anti-lock brake technology would appear to have a strategic importance but Dr White disagrees and has put development on a "care and maintenance" basis, believing AP could not afford to keep pace with the scale of research and development needed.

Convinced that most brake producers are losing money on ABS, except Bosch with some 70 per cent of the market, Dr White says: "We do not subscribe to the view that we are going to get locked out of the market."

Mr Crawford sees the move to systems as a great opportunity because its expertise in pre-filled hydraulic clutch systems and clutches can be extended to the pedal box and flywheel which would be developed under one roof. AP has developed such a system for a US 1991 vehicle.

AP has suffered in the past from inventing things the industry didn't want to buy, however, its automatic clutch and throttle system will be launched in 1992. A servo motor operates the clutch when the gearlever is moved to select the next gear. This eliminates the clutch pedal.

Growth of 60 to 70 per cent over the next five years is the target for AP. West Germany is the biggest market for the friction division – Textar is three times bigger than the closest sister factory within BBA which overall holds a 20 per cent share of the European market. By comparison output from its UK factories has been static over the last eight years.

Organic growth and acquisitions, including the AP business, have pushed up BBA's automotive sales from £174.7m in 1985 to £750.5m last year, achieving an operating profit of £55.1m and a 7.3 per cent return on profits.

Expansion will come from taking the friction division into the US. A decision will be taken this year on building a factory either in the Mid West or Virginia. The aim is to reach $20m sales within three years. Against the three established rivals in the US market Dr White is confident of a "significant stake" for BBA.

This move will help to improve the geographical balance of BBA's automotive operations. They get 8 per cent of their total operating profit from US compared with 22 per cent from the UK, 41 per cent Europe and 29 per cent rest of world.

The sale last year of bumper and heavy pressings businesses in the US, the UK Autotela after market distribution chain, and the auto safety centres suggested otherwise but it has left BBA to concentrate on its core AP and friction material businesses.

Daniel Ward

PROFILE: Lucas Industries

Growth after slimming

THE LARGE restructuring of Lucas Industries' automotive business was graphically signalled last year when its share of group sales slipped below 60 per cent. In 1984 the share was 80 per cent.

Sales growth of 13 per cent over the five year period to 1989 suggests the automotive businesses had lost their way but the figures disguise the true position. Mr Bob Dale, managing director of Lucas's automotive division says: "Sales haven't changed much in the last five years, the main reason for that is we have divested our UK businesses."

The slimming down involved abandoning the production of high-volume car instruments, vehicle lighting, car starters and alternators and small motor/wiper motors which overall reduced sales by £200m to £230m. This is the amount the surviving businesses have grown. Over the same period operating profits for the division have more than doubled to £116m in 1989 and stockbrokers Schroders forecast a rise to £139m next year.

The "better balance" for the group will result in the automotive operations accounting for closer to 50 per cent of total Lucas Industries sales.

Lucas' three main areas for future growth are: diesel and petrol engine management systems; brakes and other chassis related equipment; and body electronics. However, the product range continues to be broad as there remain what Mr Dale describes as "support" businesses which contribute 20 per cent of the division's sales.

Batteries has been demoted to "support business" status. It is UK-based and unlikely to provide much growth but Lucas wants to keep an interest in this sector hence a 50/50 joint venture with the Japanese producer Yuasa.

One quarter of Lucas' automotive sales derive from the after market, car brakes and diesel equipment each account for 22 per cent, body electronics 11 per cent and truck brakes 9 per cent with electrical products and petrol engine management contributing relatively small shares of 6 and 5 per cent respectively.

Mr Dale has no doubt that the diesel sector offers good long-term prospects. Lucas accounts for almost one third of the diesel fuel injection equipment for cars and 40 per cent of the truck and agricultural diesel engine sector in Europe. It is the number two supplier behind Bosch. A strong customer base with Peugeot and Citroën has proved fortunate for Lucas CAV as the car diesel demand in France has grown strongly in the last two years in contrast to the decline in Italy and West Germany where diesel sales are recovering after a sharp fall.

Lucas expects growth in diesel demand will continue because of environmental concern about pollution from car exhausts although particulates emissions remain a dirty mark against diesels. The inevitable trend towards electronically controlled diesel pumps will increase the sophistication and value of diesel equipment.

Mr Dale sees the petrol engine management as largely a mature technology and "we see a degree of saturation in the petrol injection market". Lucas' petrol injection business ranks only fourth or fifth in Europe and in the top seven in the world. Winning an order from BMW for fuel injectors represented a significant lift but Mr Dale reveals that Lucas is no longer actively seeking to supply complete fuel injection/engine management systems in Europe or the US. This is a big switch in company policy. It supplies Jaguar, Range Rover, Saab and an undisclosed model. Keeping abreast of the technology while supplying components is Lucas' objective.

Lucas Girling has 30 per cent of the Europe car brake market and is number one among the independent truck brake makers. The market for anti-lock brakes in Europe could be worth £3bn within the coming decade. The sector is dominated by Bosch, thought to be the only producer to be making a profit from ABS. Lucas' market share is very small as it concentrated on hydro-mechanical systems which have been superceded by electronically controlled designs.

Lucas will tackle the US ABS market by joint venture. It has a joint venture on foundation brakes with Sumitomo and the Japanese company has developed an ABS system for its domestic market using some Lucas technology.

Lucas has not hesitated in signing licencing agreements with the Japanese in a bid to win business.

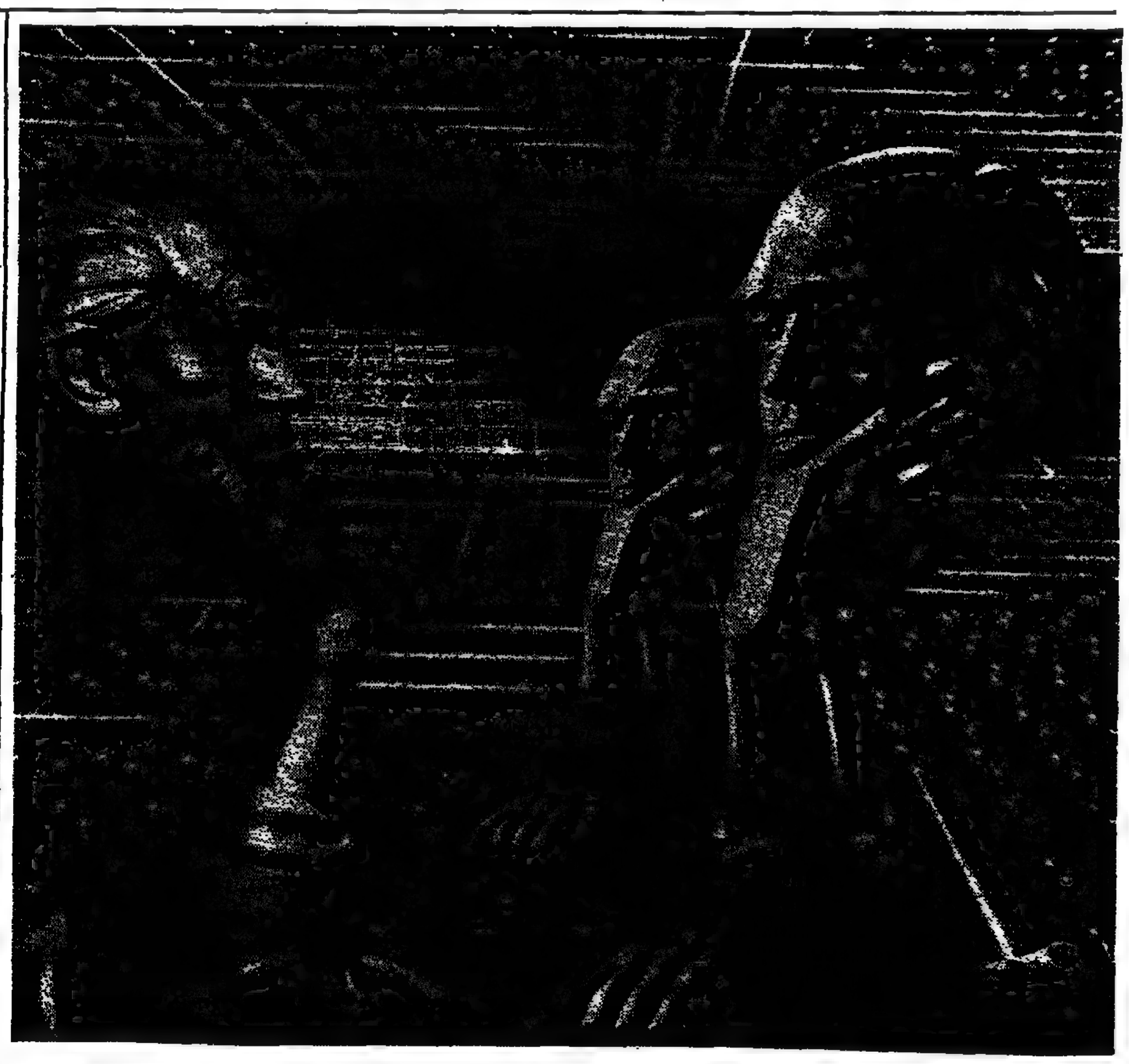
A joint venture agreement with Sumitomo Wiring Systems signed last December gives Lucas a 70 per cent stake in a new wiring operation in south Wales with the aim of increasing business with Rover/Honda. Many of the engine management components made for Nissan's Sunderland plant are produced under licence from Hitachi.

Mr Dale expects to be supplying the new Nissan Micra when when Sunderland begins production in late 1992.

Component suppliers will have to be able to offer integrated systems to manufacturers, for example, extending ABS to include traction control which interacts with the engine management system.

Daniel Ward

Bob Dale: diesel hopes



Kevin Done sees a bright outlook for the UK

More foreign interest

THE British automotive components industry has an encouraging outlook in the 1990s with UK car production set to return by the middle of the decade to levels not seen since the early 1970s.

The UK has achieved a clean sweep to date of the first wave of investment projects planned by Japanese car makers in new car production capacity in western Europe, which should lift UK car output to about 2m a year in the second half of the 1990s from 1.3m last year, the highest level since 1977.

Nissan, Toyota and Honda are developing assembly and engine plants in the UK in a combined investment of more than £1.8bn. Honda has also taken a 20 per cent equity stake in Rover, the leading UK car maker, which is building up to 40,000 cars a year for Honda at its Longbridge, Birmingham plant.

At the same time, Western European car makers, particularly those with a heavy presence in West Germany, are being increasingly attracted to the UK as a cost-effective source for components.

Such moves offer considerable opportunities for the UK auto components industry, but they pose severe competitive challenges as foreign component makers seek to develop a UK base.

Many UK components makers are also in danger of proving too small to compete in the increasingly global auto industry. The UK makers need a strong international presence to help them cope with cyclical swings in UK vehicle markets, where demand for both cars and commercial vehicles is falling sharply.

General Motors of the US, the world's leading car maker which had progressively withdrawn from many of its UK manufacturing operations during the late 1970s and the 1980s, has signalled that it wishes to redress the balance.

The financial recovery achieved by GM's European operations in the last three years has been helped in part by a global policy of re-sourcing components to cheaper locations.

The programme has included the progressive transfer of components purchases worth £478m a year to the UK over the three years 1987-89. Some £112m of this was re-sourced in 1989, and of the £478m total, Vauxhall, GM's main UK subsidiary, has accounted for £174m.

GM's renewed long-term commitment to the UK as a significant components source for its European operations came with the company's decision to begin manufacturing engines again in the UK more than six years after it closed its last UK engine assembly facility. It is to invest £160m to build a new engine plant to produce a range of top-of-the-line V6 engines.

The investment marks a watershed for the US group reversing its earlier significant retrenchment from manufacturing in the UK. The site was chosen against fierce competition from a rival GM site at Kaiserslautern, one of GM's leading West German engine and components plants.

Much remains to be done to develop the UK auto components supply base

GM will still have a considerable trade deficit in the UK, but it claims that the engine plant will improve the British motor industry's large £6.5bn trade deficit by about £100m a year.

Most of the engines will be exported to GM assembly plants in Europe. The engine plant will have an initial output of 85,000 engines a year on three shift, 24 hours a day working, when it is commissioned in late 1992.

The operation will include extensive operations for blocks, cylinder heads, crankshafts, camshafts and con-rods, and will produce more than 140,000 additional cylinder heads to be supplied to GM European engine plants.

The move to increased components buying and manufacturing in Britain by GM, which has previously been heavily weighted towards West Germany through the dominance of its West German Opel subsidiary, has been followed more modestly by the other leading German car makers including Volkswagen, BMW and Mercedes-Benz, which have all strengthened their British purchasing operations.

The main question mark against the UK's recent record for attracting inward investment has come from Ford, the leader of the UK car market, which announced recently that it had decided to switch its planned £225m investment for a second phase of expansion at its Bridgend engine plant in south Wales to Cologne, West Germany.

The company claimed that the "unreliability" of supplies from its British plants, which have suffered two serious bouts of industrial action in the last three years, was a factor in the decision.

The increasing attraction of the UK for foreign auto components makers has been clearly illustrated by moves such as those by Bosch of West Germany, the leading European auto components maker, to invest £100m in its first British plant manufacturing components and takeovers of existing British components makers by Calsonic and Nippondenso of Japan and by Valeo of France.

In March, Thyssen, the West German steel maker, took over the Birmid foundry group, one of the biggest castings suppliers to the UK motor industry, for £85m.

It is one of a series of moves by West German metals companies into the British steel industry, prompted by the prospects of winning contracts to supply the motor industry, and most particularly the growing UK operations of the Japanese car makers.

Much still remains to be done to develop the British auto components supply base. Components remain the UK motor industry's biggest source of export earnings, and foreign sales by this sector increased by 17 per cent last year to £3.9bn, including an increase of 15 per cent in the final quarter.

The UK still had a £1.2bn trade deficit on automotive components last year and industry leaders are anxious to plug large gaps in the supply base.

These include audio equipment where the UK imported car radios worth £176m in 1988 highlighting the lack of a UK-based car audio maker, and future growth areas, such as engine management systems.

PLASTICS

The durable alternative

THE LAUNCH of a range of futuristic-looking vans by General Motors last year marked a milestone in the motor industry's use of plastic composites.

The Chevrolets, Pontiacs and Buicks were the first to use plastics on such a large scale. Capacity for the manufacture of 250,000 vans a year has been installed.

The concept was pioneered by Renault and Matra of France, in the form of the seven-seater Espace van. But other manufacturers are following the example.

Most of the virtues of plastics are obvious. Depending on their composition, they can possess a wide range of characteristics. They can combine extreme strength with lightness, such as when they incorporate carbon fibre, and allow manufacturers to create stressed structural body parts which can be moulded into complex shapes.

The vehicle maker has a financial advantage being able to use such mouldings. The tooling to create them is cheap – one-fifth or less of the cost of steel tooling. Time and several assembly and welding processes can be avoided.

Various components made of steel and other materials, which are not expected to be removed during the working life of a vehicle – such as heaters and ducting – can be moulded in from the start, eliminating the annoying rattles which can arise when such components are attached by conventional fixings.

Body panels made from thermosets or thermoplastics are also more durable than steel, for the simple reason that they do not rust. And because the tooling is so cheap, it becomes easier to make a variety of body styles around one basic vehicle platform.

This is becoming increasingly important as markets fragment into an ever-growing niches. But there are problems with plastics, too.

The materials themselves are intrinsically more costly than steel – to the extent that even when cheaper tooling is taken into account, in many applications they remain uncompetitive.

For that reason, and because of the large investments already made in conventional body framing and welding systems – usually designed to last for 20 years or so – there is no possibility of an overnight takeover of steel by plastics in all areas of the vehicle.

What is expected, however, is a steady increase in penetration. To take the US as an example, market analysts Freedonia say they expect to see the use of engineered plastics in light vehicles to increase by 8.7 per cent a year in each of the next four years.

They envisage growth of 9.5 per cent for thermoplastics and a more ambitious 14.8 per cent growth for reaction-injection moulded components, the uses for which can be particularly diverse, including for large body panels.

Inevitably, this is seen as highly encouraging by leading players in the business, such as the chemicals group Dow.

The new GM vans, for example, incorporate around 45 kilogrammes of Dow's own plastics, as well as significant quantities of differing composites from other chemicals groups. Mr Denis Wilcock, executive vice president for plastics of Dow's European operations, expresses confidence that the GM contract will be the catalyst for more. "We're in the midst of a materials revolution," he claims.

The growing use of plastics is building up other problems however. Not least is how to dispose of or re-use plastic components. Unlike steel, oil-based plastics are not biodegradable.

Wide-ranging research into recycling plastic components is getting under way.

BMW, for one, is very optimistic about the possibilities, maintaining that up to 97 per cent of a vehicle could be recycled if it was specifically designed.

If a pilot scheme is successful, BMW expects to set up a permanent recycling plant, capable of processing 250,000 cars a year.

John Griffiths

PROFILE: GKN

A three-legged stool

THE NAME of GKN is virtually synonymous with that of engineering and the motor industry in the UK.

But so great have been the changes in the sectors where it operates – and in the group as it has sought to adapt to them – that it derives little more than one-third of its sales from the country in which it was founded some 88 years ago. Its structure is also different from a decade ago.

More than half the companies which made up the group then have been replaced. The group is now supported by a three-legged stool of activities: automotive, industrial services and defence.

Considering that GKN was almost a terminal casualty of early 1980s recession, the transformation has been a positive one. In March of this year Mr David Lees, chairman, was able to tell shareholders of another rise in pre-tax profits, by 21 per cent to £214.8m – outstripping in percentage terms an increase in total turnover to £2.69bn from £2.37bn.

Underlining the importance of the automotive sector to the group is that it accounted for 61 per cent of group sales last year, up 4 per cent on 1988.

While Mr Trevor Bonner, managing director of its automotive operations, expects the proportion to reduce to just over one-half he stresses that this will be the result of differential growth rates within the group – with industrial services expanding particularly rapidly – and that the value and volume of automotive business will expand.

GKN has spread component manufacturing plants throughout continental Europe and into North America. This was driven by the combination of double-digit inflation and the soaring petro-pound at the end of the 1970s, and subsequently by the globalisation of the motor industry.

This geographical, as well as sectoral, spread has lessened GKN's exposure to cyclical risk to the extent that even if there were to be a prolonged downturn in one part of motor industry it would no longer be a catastrophe for GKN, says Mr Bonner.

The group's ability to weather demand fluctuations in the vehicle producing regions has yet to be tested seriously. Nor does this appear likely in the immediate future. While domestic US vehicle producers have been cutting output this year, GKN has well-developed supply contracts with Japanese transplant assembly operation in the US whose products are gaining an increasing share of the North American market.

David Lees: profits rise

In Europe, while car sales are down in some countries such as the UK and Spain, the market remains strong in other important countries such as West Germany. A developing problem area is that of commercial vehicles, sales of which have fallen sharply in several European countries not least the UK, where heavy truck sales are down about 30 per cent compared with 1989.

GKN sees eastern Europe as more of an opportunity than a threat

The political and economic changes taking place inside Europe mean that GKN is reassessing its position in Europe.

Planned vehicle operations by Volkswagen, Opel and Mercedes-Benz in East Germany have encouraged GKN to investigate component supply prospects there.

GKN insists it sees eastern Europe as presenting more of an opportunity than a threat. It sees East Germany in particular as potentially ripe for direct investment in component production to cater to local market growth "and potentially, over time, capable of being brought into our global supply network," says Mr Bonner.

That network is changing as change continues to take place in the global vehicle industry. Mr Bonner sees, for example, considerable growth potential for GKN components as Latin American and Pacific Rim vehicle manufacturers develop. Not least of GKN's concerns is the likely situation within western Europe post-1992.

Between 60 and 70 per cent of output from GKN component plants in Europe is destined for the national market in which the plant is located, meaning that production of particular components is often replicated at several plants.

GKN is looking for a more integrated, pan-European structure. For example, individual parts for one of its component mainstays, constant velocity drive joints for front-wheel-drive cars, will be made at fewer factories but in greater numbers.

This approach will still be compatible with the increasing "just-in-time" inventory policies of the vehicle makers, insists Mr Bonner, because the parts can be easily shipped to assembly facilities which could be set up cheaply close to the vehicle makers' own plants.

As with eastern Europe, GKN insists that the growing presence of Japanese vehicle makers in both North America and Europe has presented more opportunities than disadvantages.

This is in spite of the recently-disclosed intention of the US Federal Trade Commission to invest US component makers' complaints that they are being edged out of supplying the Japanese transplants as a result of exclusive supply arrangements being formed with Japanese component makers.

"In 1985 our direct supplies to the Japanese were insignificant", says Mr Bonner. "Last year our sales to them reached £70m, and we expect them to grow further."

John Griffiths

Arthur Way looks at the European sector

Fewer and bigger groups

THE WESTERN European automotive components industry has been undergoing a process of restructuring and rationalisation throughout the 1980s, in large part as a response to the changing demands placed upon it by a European vehicle manufacturing sector which has experienced significant developments during this period. There is no sign of any slackening in the pace of change.

The European component manufacturers are having to satisfy the increasingly onerous demands placed upon them by their customers, and at the same time fend off external challenges, notably from Japan. During the 1990s vehicle manufacturers will more and more be sourcing their component requirements in the form of built-up systems and, on a global basis, from companies which are becoming known in the industry as "world class players."

It has been suggested that eventually only between 50 and 100 of these companies will account for the majority of business with vehicle manufacturers, although this seems distinctly on the low side.

Whatever the final number, there is no doubt over the prevailing trend towards fewer companies, nor over the motives for the recent and forthcoming spate of corporate moves. They are aimed at ensuring that the European components industry has its fair share of members in this exclusive club.

The move towards globalisation does not mean that components will be sourced from all corners of the world – the move towards just-in-time sourcing by vehicle manufacturers suggests that this is unlikely – but rather that multinational component producers will have global representation in terms of manufacturing plants.

The key to success will lie in gaining a technological edge, and since technology is becoming increasingly specialist and expensive only those companies with the necessary production volume and financial muscle will remain.

The recent history of the European component industry is littered with examples of companies which have divested themselves of marginal operations – either because they have too low a level of technology or because the cost of upgrading the technology that exists would be so expensive that it could not be justified.

In the UK, for example, GKN and Lucas (especially) have sold operations which have not fitted into product or systems areas where they have, if not world technical leadership, at least world technical parity.

Technology is also affecting relations between component suppliers and the vehicle manufacturers. As the latter come to depend more on the former for the technological content of their products, so technical and product support assumes a growing importance.

The result has been a move towards larger groupings with companies such as GKN and Lucas in the UK, Bosch in West Germany and Valeo in France becoming more and more international in their approach as well as powerful and dominant in their respective product sectors.

The recent moves at Valeo provide a good illustration of how the European sector is developing. The company has embarked on a determined acquisition spree, in France and abroad, culminating in the takeover last year of US-based Blackstone, a leading producer of engine cooling and climate control equipment for cars and trucks. As a result, Valeo is now the largest components producer in France but is also truly international as about half of its revenue is derived from foreign markets. The company has formed joint ventures with companies in the US, Japan and South Korea.

European Governments, which for understandable reasons have kept an eye on the health of the motor industry, have shown increasing signs of concern over the health of the components sector. Valeo's mopping up of a number of the smaller French producers has proceeded with the active encouragement of the Government, and in the UK there have been various governmental examinations of the sector's competitive position.

The European Commission is taking a closer interest in the EC's components industry and has asked London-based PRS Consultancy Services and the Boston Consulting Group to carry out a study into the sector's prospects.

There has been a rigorous discussion over the level of local (European) content in vehicles produced by the Japanese assembly facilities which are scheduled to commence operations over the next few years.

It is in the interests of the European components industry that as much as possible should be sourced locally. But whatever formula is agreed, the industry will face greater competition from non-European companies.

The Americans have long been a fixture on the European scene and have gone a long way towards integrating their operations into a global network. The 1990s are likely to see an ever-growing involvement from Japanese component producers who are arriving on the back of their compatriots' vehicle plants.

However, unlike the experience in North America where the entry of the Japanese component producers has been mainly achieved through greenfield operations, in Europe it is probable that joint ventures and acquisitions will be the chosen routes.

A number of intriguing liaisons have been formed. Lucas, for example, has teamed up with Sumitomo Electric Industries and Valeo – which has made no secret of its desire to keep the Japanese at bay – has linked up with Nippondenso in Spain to produce electronic ignitions. In the context of powerful first-tier component suppliers and greater international competition, where does that leave the second-tier suppliers which are typically operating on a national basis?

In a not very enviable position. These companies, which are still in many cases supplying the vehicle manufacturers direct, are gradually moving to the status of supplying the first-tier component groups.

In the new order they need to form alliances with the "world class companies" and make themselves as indispensible to their customers as the first-tier component suppliers are becoming to the vehicle manufacturers. Not all is lost and there is plenty to play for.

PROFILE: Valeo

A pause for breath

VALEO, Europe's second largest maker of spare parts, is joining other component makers and waking up to a likely slow-down in market growth after five years in which demand has expanded.

"We are in a period of consolidation," said Mr Noel Goutard, chairman of the French company, recently announcing plans to close about 15 plants and lose 3,000 jobs from the group's 34,000 workforce. The announcement from Valeo, a bell-wether of the general health of the French car industry, comes as little surprise. It emerged just a few months after Michelin, the world's largest tyre maker, revealed a freeze on new investments and reinforced cost and stock controls for the same reasons.

This comes shortly after Valeo's conclusion of the seventh in a veritable orgy of acquisitions, stretching back three years. It began when Mr Goutard was head-hunted from Thomson, the French electronics group, by Mr Carlo de Benedetti, the Italian entrepreneur whose holding company, Cerus, had just bought a controlling stake in Valeo. The last deal was the takeover of Blackstone, the US maker of engine cooling and climate control equipment, completed for FFr1.5bn last September. It was the group's largest successful takeover.

Blackstone has brought Valeo to a watershed in its development.

Most of Valeo's new round of cuts will fall among its temporary staff, who represent up to 10 per cent of the workforce, especially in busy times, such as last year, when the French car industry produced a record 3.4m passenger cars.

On his arrival Mr Goutard found Valeo an overdiversified holding group, with 10 per cent of its sales in completely unrelated activities such as cement and metallugry. Now it is second only to West Germany's Bosch, the largest European car components company outside the tyre industry, and fully focused on the automobile industry.

With the help of a ruthless cost-cutting programme and the buoyancy of European demand, Valeo swung round from a FFr308m loss in 1986 to FFr817m net profit, in 1988.

Paris analysts were expecting net profits to jump to at least FFr1.1bn in 1989, but last

Noel Goutard: consolidation

autumn's seven-week strike at Peugeot, one of Valeo's biggest customers, left it with FFr936m net profits for the year, a 15 per cent increase over 1988. Turnover rose by 19 per cent to FFr19.5bn, last year from FFr16.5bn in 1988.

During the first three years of Mr Goutard's hectic period Valeo bought Neimann, then France's third largest car component group; formed joint ventures with US, South Korean and Japanese parts suppliers; bought Bongotti, the Brazilian producer of car heaters and acquired Delanair, the UK maker of air conditioning systems, among other deals.

Not all of its targets have fallen. In October 1988, Mr Goutard was forced to call off a hostile FFr2.4bn takeover bid for Epeda-Bertrand Faure, a diversified French car seat company, in the face of a higher counter-bid from a consortium led by the Peugeot car producer and Michelin, powerful Valeo customers which account for roughly half of the component group's sales. The French car industry establishment wanted to trim the power of its top supplier.

The central purpose of Valeo's strategy is simple; to gain and hold European market leadership in a range of car component niches within Valeo's technological grasp. Accordingly, clutches, engine cooling, climate control gear and lighting are among the six systems where it the largest European supplier.

While acquisition has been the main approach, Valeo executives are extremely sensitive to charges that their sales growth has been entirely takeover driven. They point to an annual research and development spend of 9 per cent of turnover. Recent products of this have been high performance headlights for the new Peugeot 605 and Citroën XM and the heating units for the new BMW 5 series.

It is a high research budget by the industry's standards, equivalent in cash terms to only half that of Bosch, whose annual turnover is three times larger than Valeo's. At the same time, Valeo's market-driven approach differs revealingly from that of Bosch, where a more conservative management and greater emphasis on the pursuit of new technology, has left it more specialised, with its renowned dominance in fuel injection.

For Valeo, the advantages of picking up market niches in car equipment have allowed it to make the best use of the customer base and to achieve economies of scale in distribution. This has helped Valeo to respond to car producers' demands to be supplied with full component systems.

"Car producers want to deal with the smallest possible range of suppliers these days and they need to build up very close relationships with them," says Mr Yves Blanc, Valeo's finance director.

It is not just a question of using acquisitions to buy market dominance in individual components. Equally, Valeo has used acquistions to fight off competition.

Mr Blanc cites the Blackstone deal as a prime example. "The main aim of the acquisition was to reinforce our position in air conditioning. But it was also a defensive move. If we hadn't taken it over, the Japanese would have been happy to do so. Moreover, a price war with Blackstone had been happening and we needed the takeover to bring peace to the market," he explains.

This illustrates the Valeo management's generally adversarial view of Japan, rooted in a determination not to let Japan dominate the European component industry in the way that has happened in the US.

"One reason for the acquistions is to lock out the Japanese," admits Mr Goutard. But with exemplary French pragmatism, he is just as happy to form joint ventures.

An example is the joint company which Valeo created last summer in Spain with Nippondenso, the world's second largest car component producer after Bosch, to produce parts for electronic ignitions.

The French and Japanese had been asked for this component by their existing customers. Valeo was asked by Peugeot and Citroën while Ford contacted Nippondenso.

As Mr Goutard embarks on his latest round of restructuring, he is calm about the impact of the slow-down in demand most observers believe is about to overtake the European car market.

Mr Goutard predicts demand for cars will grow at 1 to 2 per cent annually in Europe in the next five years. But the component supplies market can expect sales growth of 5 to 6 per cent thanks to the growing technological sophistication of basic car models.

This is driven by the European Community's move to tough US-style exhaust pollution limits, plus growing consumer demand for technologically-complex safety features such as anti-lock braking. Mr Goutard insists Valeo's sales will exceed FFr25bn by 1990.

William Dawkins
Paris

Eastern Europe beckons, says Arthur Way

Hopes for expansion

THE PROSPECT of a rapidly expanding east European motor industry during the 1990s presents some mouth watering opportunities for vehicle manufacturers.

Even before the recent political changes, the region's automotive sector was undergoing a process of modernisation and growth, in many cases with the assistance of Western companies. Now the pace has speeded up with a number of large deals concluded and others under discussion.

Fiat, for example, has agreements with the USSR and Poland concerning large scale car manufacturing projects, Suzuki is to produce cars in Hungary by means of a joint venture with local interests, and Skoda of Czechoslovakia has held talks with a number of potential partners.

Behind the frantic activity, though, there is an understanding that obstacles need to be removed before the potential of the region's automotive industry can be realised.

In particular, success or failure will be heavily influenced by the extent to which vehicle producers are able to secure a source of locally produced components and with subassemblies of a consistently high quality and incorporating advanced technology.

In the absence of that condition eastern Europe's motor industry will stumble, along with plans to export more vehicles to Western markets and earn the hard currency to pay for much of the inward investment.

The east European components industry is way behind — perhaps by as much as 20 years — its Western and Japanese counterparts. Catching up will be neither easy nor quick. The sector has lived with a series of day-to-day frustrations of the type which are unknown in other large centres of vehicle manufacturing. Communications are difficult, raw materials lack consistent quality and power supplies can be erratic.

The heavy hand of centralised control and bureaucracy, combined with a lack of competitive tendering, have bred the conditions in which there has been little incentive for managements to improve and innovate.

It is not surprising that quality control and technical support are lacking, and that the performance and reliability of the finished products often fail to match Western and Japanese standards.

East European producers have not been spoilt for choice over the selection of their component suppliers and it has not been easy to find alternative sources. This is beginning to change, with companies such as Skoda taking a more rigorous approach to its supplier base and the quality of its purchases.

The position is not good enough for the new wave of vehicle manufacturing investment which will be installed over the next few years. So where will the new generation of components come from?

The pace of growth and modernisation has quickened

In part, the new or expanded vehicle assembly operations will source components and subassemblies from the West and Japan for some time to come — their cost being offset by exports of finished vehicles to hard currency markets. The Suzuki venture in Hungary is expected to begin with locally produced components accounting for no more than 25 to 30 per cent of requirements. The Hungarian Government is anxious to see this advance to 70 per cent as soon as possible — although, in the context of the country's existing components sector, the scale of investment required to make that happen would be far greater than the cost of the vehicle assembly plant itself.

It would be extremely wasteful for each country to develop a fully fledged components industry of its own. A pattern is emerging with Western component suppliers establishing joint ventures with Eastern partners, often with active encouragement and support from the vehicle manufacturers. Activity along these lines is especially evident between West and East Germany where Volkswagen, General Motors and Mercedes-Benz are playing leading roles.

Volkswagen, which has set up a joint venture to assemble Polos with the company which makes the Trabant, is arranging meetings between its main component suppliers and East German companies with the aim of exploring areas of co-operation.

General Motors has reached agreement with Automobile Works Eisenach, the producer of Wartburg models, to establish a joint venture company for the production of components and assembly of vehicles.

Meanwhile, Mercedes-Benz aims to develop a large presence in East Germany's truck industry and is planning to enlist the help of Western component producers in the attempt to establish the required supply base in that country. Based on these initiatives a string of companies — including Bosch, Continental and Varta — have announced co-operative agreements with East German partners.

Western companies are taking their suppliers with them as they move east, in much the same way as Japanese vehicle producers have taken their suppliers into North America.

There is one important exception. Rather than establishing greenfield operations on their own, the emphasis is on finding a partner and forming a joint venture. From the Eastern standpoint a joint venture is far preferable to a turnkey operation, since the latter is associated with the provision of outdated technology. A joint venture implies an element of partnership between, if not equals, at least potential equals.

Towards the end of the 1990s, the east European components industry may become an integral part of west European vehicle manufacturers' supply network. With the benefit of the West's technology the region could develop into a new, low cost supply base.

For vehicle manufacturers and component suppliers alike, eastern Europe offers plenty of potential, although the payback period will be lengthy and the path ahead full of uncertainty.

Much still needs to be done with regard to basic commercial arrangements such as facilitating the repatriation of profits and fostering a spirit of competition. The great unknown is the extent to which recent political changes will be stable and durable.

ELECTRONICS

BMW on a new systems path

ELECTRONICS have become widely accepted as the principal engine of change in both the vehicle as a product and the means of producing it.

The increasing complexity of the car, which is becoming "intelligent" as its computer-controlled dynamic behaviour and engine management systems proliferate, is more than matched by that of its production systems.

Computers directed by sophisticated software have allowed manufacturers to build robotic framing, welding and assembly systems of a flexibility not easily contemplated at the start of the 1980s and capable of building a variety of different sizes of car almost at random.

Electronics are the fastest-growing ingredients in a vehicle, and a conventional wisdom has grown up that such ingredients will be provided, as a matter of course, by highly specialised component producers.

These producers, so the convention runs, will strive to be of a size capable of supporting large research and development projects of their own. Their depth of capability would be such that the vehicle manufacturers, as with other component areas, would be content to work closely with the suppliers on initial component development — then leave the supplier to get on with it. The vehicle maker's role increasingly would be that of an assembler.

Everyone would benefit, so the argument runs, because these large, sophisticated suppliers would be able to cater to a number of manufacturers with ease, and both supplier and would benefit from improved economies of scale.

This, indeed, has been the convention for the past few years. But BMW now appears bent on breaking it. The West German executive car maker is determined to develop, and manufacture, its own core electronics components.

Since it runs so sharply counter to motor industry trends, it could have a negative impact on the independent electronic components industry should BMW be so successful at it that other vehicle makers copy it. BMW executives say they believe the company could cut the cost of electronic control units (ECUs) and other electronic components by up to two-thirds by designing, developing and producing them in-house.

Large vehicle producers in Europe are heavily dependent on Robert Bosch of West Germany, Alfred Teves, Lucas, Magneti Marelli and others for electronics-based systems such as fuel injection and engine management systems.

Some car makers have opted to gain closer control over this trend, as well as broaden their business base, by buying the components or electronics groups themselves. General Motors' acquisition of Electronic Data Systems and Daimler — Benz' purchase of AEG fall into this category.

BMW's research and development engineers have concluded that there are fundamental flaws to the concept that an expert independent supplier, allying its pool of expertise to the economies of scale represented by supplying similar categories of components to a cluster of vehicle assemblers, is the most efficient route for the industry.

What can easily happen instead, they believe, is that assemblers pay inflated sums for unnecessarily complex parts developed as a compromise between the widely varying needs of several assemblers. BMW has designed modular electronic control systems for its new cars which should be much simpler, more flexible and cheaper to produce than current systems, said a BMW executive.

It is likely that, initially at least, BMW will seek to have its systems actually produced by an external supplier. BMW's executives acknowledge that this carries the risk of its own design principles becoming available in parts made for other vehicle assemblers. However, BMW will not seek particularly to seek patent protection.

BMW expects such a situation to be transitional. It expects to have its own electronic components plants within five years.

John Griffiths

PROFILE: Bosch

Quality comes first

ROBERT BOSCH was a hard man to please. Back in 1918, he said: "It has always been an unbearable thought to me that someone could inspect one of my products and find it inferior. I have, therefore, always tried to ensure that only such work goes out as is superior in all respects."

This uncompromising statement is now central to the philosophy of the West German company that bears his name.

The Stuttgart-based Bosch, founded in 1886, is the world's biggest supplier of automotive components, which account for just over half of its turnover of about DM30bn. Its 52 plants in the sector include 28 outside West Germany. It has also entered into joint ventures and licensing agreements in Asia Pacific and the US.

Its latest move is to link up with an East German parts manufacturer in preparation for the potential in a united Germany and eastern Europe. Under its soft-spoken, thoughtful chief executive, Mr Marcus Bierich, the group has striven to become less condescending to its customers in the motor industry and more alert in responding to their wishes.

"The word responsiveness' is very important to us," he asserts. "We have to change according to customers' wishes. It's no longer the case that products are eagerly snatched out of our hands just because they were made in Germany."

The company has tried to move nearer the customer by setting up foreign plants and application centres so that products developed in Germany can be locally adapted for widely differing world markets. Last year's decision to build a £100m alternator plant in Wales is a prime example of this more flexible approach.

Not only did Bosch want to be closer to a newly resurgent UK motor industry, it also wanted to tap what Mr Bierich sees as the more exciting, more industry-oriented research facilities in the UK.

Bosch has traditionally carried out nearly all its product development work in West Germany, but sees the need to be more alert and fast-moving as market pressures increase. For although Bosch still dominates the automotive equipment industry, its nearest rival being Nippondenso of Japan in which it has a 6 per cent stake, the West German company has come under stiff competition.

Marcus Bierich

In West Germany, companies such as Siemens and AEG (part of Daimler-Benz) have moved into the sector. Siemens considerably increased its market penetration through the purchase nearly two years ago of Bendix Electronics, a US company with wide international activities.

The growth trends in all the important volume markets are levelling off

Bosch's strength in standing up to its rivals is that it has always been highly innovative. It pioneered ABS in the early 1970s, though it did not then proceed with the product because it contained more than 1,000 electronic components. Bosch waited until ABS could be produced with far fewer electronic parts, even though car makers pushed hard for its early introduction.

It has produced over 5m ABS units, with yearly capacity at 1.3m. However, product strength is not enough these days. The competition, including the Japanese, has become more aggressive. Bosch has had to become more accommodating on price and faster with changes in its products.

"Products are no longer so uniform," notes Mr Bierich, a former finance director of the Mannesmann engineering company and the Allianz insurance group.

Moreover, the world's car markets are unlikely to continue growing at the same pace as in the past. "The growth trends in all of today's important volume markets are levelling off," believes Mr Hansjörg Manger, a Bosch director. Thus the emphasis will be on qualitative rather than quantitative growth.

Increased productivity is one of the weapons to which all manufacturers have to resort to defend their market positions, Mr Manger adds. Quality is another.

At a time when electronics plays an increasingly important role in car equipment and when standards of safety, fuel-emission, fuel-economy, and comfort are strengthening, reliability and improved system designs are vital in keeping down costs and meeting the needs of the customers.

For Bosch and its competitors, this means a greater degree of product internationalisation. For some components, very high volumes are needed for economic production. "These volumes can be tenfold the car volumes or even higher," explains Mr Manger. So production must be spread around different countries.

On the quality side, Bosch has recently pursued a tougher and more systematic policy.

Mr Manger, who is responsible for Bosch's motor components side as well as quality, says Bosch's maxim is simple: "Do it once, do it right." As a result, it used such sophisticated methods as Failure Mode and Effects Analysis (FMEA), first developed in the US space industry, and Statistical Process Control (SPC).

In FMEA, all potential weak points are sought out at a product's development stage, so they can be fixed early on and far more cheaply than at later stages.

SPC involves the monitoring of important manufacturing processes to ensure production machinery works well within accepted tolerances.

The founder would certainly have approved of such painstaking attention to detail.

Andrew Fisher,
Frankfurt

Michiyo Nakamoto looks at Japanese attempts to stay ahead

A drive for better technology

FOR JAPANESE auto parts manufacturers, survival on the international market-place depends increasingly on their ability to keep ahead in two areas: technology and globalisation.

Efforts to stay abreast of, if not ahead of, technological developments have become all the more necessary with a growing demand in Japan for higher quality cars and the recent foray by Japan's top auto makers into the luxury car market.

A spreading world-wide concern about safety and protection of the environment has made it essential for auto components makers to maintain the technological ability to meet the growing demands of governments and consumers alike for safer and cleaner cars.

Meanwhile, the accelerated moves of Japanese auto makers to produce in the US and Europe and tighter regulations there on local content, has made it crucial for auto parts makers to secure their own production bases overseas.

There has been a large rise in demand for higher quality cars in Japan supported by the abolition last year of a commodity tax which substantially lowered the price of luxury cars. A strong rise in Japanese asset values in the past few years helped to unleash an enormous appetite for luxury goods, including increasingly plush and expensive cars.

Both Toyota and Nissan are strongly committed to the luxury car market not only in Japan but also world-wide.

NRI, the research arm of Nomura Securities estimates that annual sales of automobiles with engine capacity of over 2,000cc will rise by over 10 per cent to 300,000 units in 1990.

Japanese consumers have also come to expect more high quality components even in standard automobiles. Japanese consumers tend to have a greater weakness for gadgets than their western counterparts. But the tendency has grown as the country's living standards have risen.

Air conditioners, for example, have become a necessity for many drivers while an increasing number of them are asking for better quality air conditioners, such as those that are electronically controlled. The installation rate of air conditioners for domestic cars continues to rise, with cars of engine capacity over 550cc showing an installation rate of 94 per cent by 1988, according to research by Barclays de Zoete Wedd, the securities house.

A severe labour shortage in the transportation industry has made it necessary for many transportation companies to install air conditioners in their trucks in order to keep their drivers from quitting.

The trend has been good for the Japanese auto parts makers which produce these components, particularly those that make electronic parts. Electronic components are in greater demand not only where they offer greater comfort, as in air conditioners, but more importantly where they offer greater safety or less pollution.

For example, electronic fuel injection (EFI) systems, which raise fuel efficiency and reduce emissions, are one of the most promising areas of growth. The installation rate of EFI, which is about 60 per cent for domestic passenger cars, is widely expected to go up to close to 100 per cent within several years. The installation rate at Toyota is as high as 90 per cent, and NRI estimates that it will go up to 90 per cent for the domestic passenger car industry by 1995.

Airbag systems and anti-skid braking systems are being installed in an increasing number of domestic automobiles. Anti-skid braking systems, in particular, are being adopted not only in the better class cars but also in standard passenger cars and are likely to spread to light vehicles.

Meanwhile, world-wide concern about the depletion of the Earth's ozone layer has prompted the Japanese Government to restrict production of perfluorocarbons, the main coolant in air conditioners. Auto parts makers which make air conditioners have responded by recycling perfluorocarbons from cars that have been scrapped.

Perfluorocarbons will eventually need to be replaced by an appropriate substitute. In another move to help protect the environment, the Japanese Government will enforce stricter regulations on noise and exhaust gas for smaller trucks and vans this autumn.

Japanese part makers that have kept up with research and development in important fields have benefitted from these developments.

Nippondenso, for example, which is the leading electronics supplier to Toyota, is well placed to benefit from the trend towards greater comfort and safety. It is a top producer of electronic and electrical parts for automobiles, and the biggest producer of EFI systems, with 50 per cent of the Japanese market, according to Barclays de Zoete Wedd. It is also a leading car air conditioner maker and has about 50 per cent of this market in Japan.

Nippondenso is moving cautiously but steadily into new businesses, such as mobile communications which is perhaps the next biggest growth area as consumers continue to demand ever more efficiency and comfort.

Nippondenso is still contemplating whether to produce car telephones itself or buy the phones from a manufacturer and put them into a system which they could sell as a unit, says Mr Benjamin Moyer, analyst with Merrill Lynch in Tokyo.

Calsonic, which is a maker of radiators, air conditioners, heater and mufflers affiliated with Nissan, will see increased demand for its mufflers and catalytic converters for controlling emissions.

Both Nippondenso and Calsonic have followed swiftly in the footsteps of their main customers to globalise their operations by shifting production overseas. Their moves to produce in the West have seemed all the more urgent with Japanese automakers facing the threat of stricter local content rules.

Nippondenso, in particular, has been fairly aggressive in its overseas moves. It has two operations in the US – a plant in Michigan where it produces car air conditioners for Japanese transplants and the US Big Three and a joint venture in the US with Toyota Automatic Loom Works making compressors for car air conditioners. It recently acquired IMI Radiator of the UK and has plans to set up joint ventures in the UK and France.

Calsonic has three main US subsidiaries and affiliates, including a joint venture with GM. It has plans to produce starter motors in a joint venture with Valeo of France.

Japanese industry, however, is finding that setting up production plants abroad is not a satisfactory solution to the increasingly complicated trade battles building up across borders. The US has been putting pressure on Japan to open up its auto parts market and has pointed to the relationship between automobile makers and their components suppliers as a barrier to foreign entry into the Japanese market.

For political reasons, Japanese auto makers will have to increase their purchases of foreign parts, and the leading auto makers have recently announced plans to do so. Yet when it comes to those components which can make a car's reputation, it is unlikely that Japanese car makers will rush to buy US parts.

Japanese components makers have learned to make parts that last and that live up to the high quality expectations of the automakers.

Forming tie-ups with foreign auto parts manufacturers through which they can pass on technology or a lead to a Japanese car maker, is one way for Japanese parts makers to do their part in easing trade friction, says Mr Moyer.

UNITED STATES

Trend towards joint ventures

US COMPONENT makers have been holding on to the rails to keep from slipping too far down the steep decline of US auto production.

The drop in auto demand that set in during last year's final quarter is likely to persist for the first half of this year. But the longer-term trend among vehicle producers toward total subsystems rather than individual parts is having a far broader impact in the US industry.

The change in sourcing patterns is predicted to reduce the overall number of component makers. The trend has slowly been taking place over the last several years, but its effects are starting to intensify, according to Mr Dennis Virag of the Detroit-based Automotive Consulting Group.

With foreign, mostly Japanese, competition still taking a significant bite out the US car market, the Big Three want to limit their number of suppliers to reduce their transaction and co-ordination costs.

They are demanding more in quality, delivery performance and engineering. As a result, there are more long-term contracts as the Big Three put greater emphasis on development of full systems and thorough service.

This may not mean, however, that many companies simply disappear. Instead, the rationalisation is expected to produce more joint ventures.

"Every major companies are forming joint ventures to supply the Big Three," Mr Virag said. The reason is not only because the investment is sizeable but because the engineering is difficult and the risk is large.

Volumes go up for those lucky enough to secure the contract. Two large suppliers, Dana and TRW, for example, have formed a partnership to produce full suspension systems. Such joint ventures will also include foreign partners. Walbro, for example, has joined Siemens to supply fuel systems, including fuel injectors and pumps.

As part of this rationalisation process, each of the Big Three has reduced its number of internally supplied parts. Ford and Chrysler have been most aggressive in this respect, according to industry analyst Mr Greg Macocko of Easton Consultants in Connecticut.

US component suppliers are criticised as too slow

He estimates that Ford internally supplies 50 per cent of its needs and Chrysler just 30 per cent, while General Motors still puts in 65 per cent from its components group, the largest in the industry.

With more externally supplied components, but more complex ones, suppliers in the US are playing a role similar to their Japanese counterparts. Japanese assemblers rely directly on suppliers for some of their systems design and they develop the bulk of their systems jointly with suppliers.

In contrast, North American assemblers have tended to design the majority of their own systems and rely little on joint design or direct supplier designs. But it is joint design that is expected to burgeon.

This tiering of the US components industry parallels that of the Japanese industry and is an example of how the Americans are trying to learn from their main competitors.

At the same time, Japanese component makers, who established themselves in the US largely to supply Japanese car transplant companies, are making some headway in supplying the Big Three.

Nippondenso, the Toyota supplier, is considered a leader on this front. It has set up a large technical centre near Detroit for electrical components and sensors. It supplies the Big Three from four plants and the centre is aimed at further penetration.

The Japanese transplants are buying more from US component makers. While they initially assembled their cars in the US using imported parts and later were supplied by their own traditional component makers who followed them, their growth in the US and the pressure of trade tensions between Washington and Tokyo are leading to more local sourcing.

A report last year by the Office for the Study of Automotive Transportation said that transplants will experience dramatic growth during the 1988 to 1993 period.

By 1993, transplants were expected to increase their production to 1.7m vehicles, up from just under 1m in 1988, the report said. This will bring a mushrooming of market share to 15.5 per cent from 7.5 per cent in the same period.

The transplants were predicted to increase the number

The changes are likely to reduce the number of component makers

of US supplied components by 45 per cent over the next five years, according to a joint study by Automobile Engineering Magazine and Markey & Associates, a Michigan marketing company.

Mazda, for example, which has a manufacturing plant in Flat Rock, Michigan increased its local content from 50 per cent to 65 per cent last autumn and it plans a further increase to 70-75 per cent by the end of 1992. The rise in local content will push up the value of locally sourced materials to $1.5bn in 1992 from the current level of $700m, says Mazda.

Last month, Mazda announced that it would purchase a total of 15 components from eight US suppliers, including 13 new parts, representing new business for the US companies. Two of those to benefit are ITT Teves America for disc brakes and Eagle Pitcher Industries for rear package trays.

There are some bumps on the road to greater local content for the Japanese transplants. While US component makers say that the transplant market is hard to crack due to cultural differences and stiff quality and price demands by the Japanese, US component suppliers are criticised as too slow and inflexible to change design and equipment.

The Japanese are moving toward simpler designs to reduce superfluous assembly. This means that components should be easily redesignable within the same frame so that factories do not have to change tools. Customers can then upgrade or replace sub-parts without replacing the entire sub-system.

The Japanese are under heavy political pressure to increase local content and they are doing so. But while more sales are being made by US component makers to the transplants, industry analysts say that in fact these are more and more the product of joint ventures with Japanese suppliers.

According to Easton Consultants, in 1984, 18.5 per cent of all parts manufacturing companies in business with transplants were joint ventures. By 1989, 46 per cent of new transplant business was a result of joint ventures. Yet, with car sales soft in the US and a return to the good years of the 1970s unlikely, US parts makers are also looking to Europe.

General Motors components group, which includes 10 divisions and had $30bn in sales last year (90 per cent of which was in-house), says that its sees Europe as the next greatest opportunity for expanding business.

Barbara Durr
Chicago